

U.S. Department of Justice

Washington, DC 20530

Supplemental Statement**Pursuant to the Foreign Agents Registration Act of 1938, as amended**

For Six Month Period Ending 9/30/13

(Insert date)

I - REGISTRANT

1. (a) Name of Registrant

(b) Registration No.

White & Case LLP

2759

(c) Business Address(es) of Registrant

1155 Avenue of the Americas
New York, New York 10036

2. Has there been a change in the information previously furnished in connection with the following?

(a) If an individual:

(1) Residence address(es)	Yes <input type="checkbox"/>	No <input type="checkbox"/>
(2) Citizenship	Yes <input type="checkbox"/>	No <input type="checkbox"/>
(3) Occupation	Yes <input type="checkbox"/>	No <input type="checkbox"/>

(b) If an organization:

(1) Name	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
(2) Ownership or control	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
(3) Branch offices	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

(c) Explain fully all changes, if any, indicated in Items (a) and (b) above.

Item 2(b)(2) Changes in Partnership are indicated in Item 4.

Item 2(b)(3) White & Case LLP opened an office in Astana, Kazakhstan.

IF THE REGISTRANT IS AN INDIVIDUAL, OMIT RESPONSE TO ITEMS 3, 4, AND 5(a).3. If you have previously filed Exhibit C¹, state whether any changes therein have occurred during this 6 month reporting period.Yes ☐ No ☒If yes, have you filed an amendment to the Exhibit C? Yes ☐ No ☐

If no, please attach the required amendment.

¹ The Exhibit C, for which no printed form is provided, consists of a true copy of the charter, articles of incorporation, association, and by laws of a registrant that is an organization. (A waiver of the requirement to file an Exhibit C may be obtained for good cause upon written application to the Assistant Attorney General, National Security Division, U.S. Department of Justice, Washington, DC 20530.)

4. (a) Have any persons ceased acting as partners, officers, directors or similar officials of the registrant during this 6 month reporting period?

Yes ☒ No ☐

If yes, furnish the following information:

Name	Position	Date Connection Ended
SEE ATTACHED PAGES		

(b) Have any persons become partners, officers, directors or similar officials during this 6 month reporting period?

Yes ☒ No ☐

If yes, furnish the following information:

Name	Residence Address	Citizenship	Position	Date Assumed
SEE ATTACHED PAGES				

5. (a) Has any person named in Item 4(b) rendered services directly in furtherance of the interests of any foreign principal?

Yes ☐ No ☒

If yes, identify each such person and describe the service rendered.

(b) During this six month reporting period, has the registrant hired as employees or in any other capacity, any persons who rendered or will render services to the registrant directly in furtherance of the interests of any foreign principal(s) in other than a clerical or secretarial, or in a related or similar capacity? Yes ☐ No ☒

Name	Residence Address	Citizenship	Position	Date Assumed
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(c) Have any employees or individuals, who have filed a short form registration statement, terminated their employment or connection with the registrant during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

Name	Position or Connection	Date Terminated
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(d) Have any employees or individuals, who have filed a short form registration statement, terminated their connection with any foreign principal during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

Name	Position or Connection	Foreign Principal	Date Terminated
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6. Have short form registration statements been filed by all of the persons named in Items 5(a) and 5(b) of the supplemental statement?

Yes ☐ No ☐

If no, list names of persons who have not filed the required statement.

This question is not applicable as our answers to Items 5(a) and 5(b) were No.

II - FOREIGN PRINCIPAL

7. Has your connection with any foreign principal ended during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

Foreign Principal

Date of Termination

8. Have you acquired any new foreign principal(s)² during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

Name and Address of Foreign Principal(s)

Date Acquired

9. In addition to those named in Items 7 and 8, if any, list foreign principal(s)² whom you continued to represent during the 6 month reporting period.

States of Jersey

States of Guernsey

Hashemite Kingdom of Jordan, Embassy

Deutsche Bahn AG

Government of the Republic of Singapore

10. (a) Have you filed exhibits for the newly acquired foreign principal(s), if any, listed in Item 8?

Exhibit A³ Yes ☐ No ☐

Exhibit B⁴ Yes ☐ No ☐

If no, please attach the required exhibit.

- (b) Have there been any changes in the Exhibits A and B previously filed for any foreign principal whom you represented during this six month period? Yes ☐ No ☒

If yes, have you filed an amendment to these exhibits? Yes ☐ No ☐

If no, please attach the required amendment.

² The term "foreign principal" includes, in addition to those defined in section 1(b) of the Act, an individual organization any of whose activities are directly or indirectly supervised, directed, controlled, financed, or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual. (See Rule 100(a) (9)). A registrant who represents more than one foreign principal is required to list in the statements he files under the Act only those principals for whom he is not entitled to claim exemption under Section 3 of the Act. (See Rule 208.)

³ The Exhibit A, which is filed on Form NSD-3 (Formerly CRM-157) sets forth the information required to be disclosed concerning each foreign principal.

⁴ The Exhibit B, which is filed on Form NSD-4 (Formerly CRM-155) sets forth the information concerning the agreement or understanding between the registrant and the foreign principal.

III - ACTIVITIES

11. During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☒ No ☐

If yes, identify each foreign principal and describe in full detail your activities and services:

SEE ATTACHED PAGE

12. During this 6 month reporting period, have you on behalf of any foreign principal engaged in political activity⁵ as defined below? Yes ☒ No ☐

If yes, identify each such foreign principal and describe in full detail all such political activity, indicating, among other things, the relations, interests and policies sought to be influenced and the means employed to achieve this purpose. If the registrant arranged, sponsored or delivered speeches, lectures or radio and TV broadcasts, give details as to dates, places of delivery, names of speakers and subject matter.

SEE ATTACHED SCHEDULE

13. In addition to the above described activities, if any, have you engaged in activity on your own behalf which benefits your foreign principal(s)? Yes ☐ No ☒

If yes, describe fully.

⁵ The term "political activity" means any activity that the person engaging in believes will, or that the person intends to, in any way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting or changing the domestic or foreign policies of the United States or with reference to political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

IV - FINANCIAL INFORMATION**14. (a) RECEIPTS-MONIES**

During this 6 month reporting period, have you received from any foreign principal named in Items 7, 8, or 9 of this statement, or from any other source, for or in the interests of any such foreign principal, any contributions, income or money either as compensation or otherwise? Yes ☒ No ☐

If no, explain why.

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies.⁶

Date	From Whom	Purpose	Amount
SEE ATTACHED EXHIBIT			

Total

(b) RECEIPTS - FUNDRAISING CAMPAIGN

During this 6 month reporting period, have you received, as part of a fundraising campaign⁷, any money on behalf of any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☐ No ☒

If yes, have you filed an Exhibit D to your registration? Yes ☐ No ☐

If yes, indicate the date the Exhibit D was filed. Date _____

(c) RECEIPTS-THINGS OF VALUE

During this 6 month reporting period, have you received any thing of value⁹ other than money from any foreign principal named in Items 7, 8, or 9 of this statement, or from any other source, for or in the interests of any such foreign principal?

Yes ☐ No ☒

If yes, furnish the following information:

Foreign Principal	Date Received	Thing of Value	Purpose
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6, 7 A registrant is required to file an Exhibit D if he collects or receives contributions, loans, moneys, or other things of value for a foreign principal, as part of a fundraising campaign. (See Rule 201(e)).

8 An Exhibit D, for which no printed form is provided, sets forth an account of money collected or received as a result of a fundraising campaign and transmitted for a foreign principal.

9 Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

15. (a) DISBURSEMENTS-MONIES

During this 6 month reporting period, have you

- (1) disbursed or expended monies in connection with activity on behalf of any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☒ No ☐
- (2) transmitted monies to any such foreign principal? Yes ☐ No ☒

If no, explain in full detail why there were no disbursements made on behalf of any foreign principal.

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies, including monies transmitted, if any, to each foreign principal.

Date	To Whom	Purpose	Amount
SEE ATTACHED EXHIBIT			

Total

(b) DISBURSEMENTS-THINGS OF VALUE

During this 6 month reporting period, have you disposed of anything of value¹⁰ other than money in furtherance of or in connection with activities on behalf of any foreign principal named in Items 7, 8, or 9 of this statement?

Yes ☐ No ☐

If yes, furnish the following information:

Date	Recipient	Foreign Principal	Thing of Value	Purpose
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(c) DISBURSEMENTS-POLITICAL CONTRIBUTIONS

During this 6 month reporting period, have you from your own funds and on your own behalf either directly or through any other person, made any contributions of money or other things of value¹¹ in connection with an election to any political office, or in connection with any primary election, convention, or caucus held to select candidates for political office?

Yes ☐ No ☒

If yes, furnish the following information:

Date	Amount or Thing of Value	Political Organization or Candidate	Location of Event
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^{10, 11} Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks" and the like.

V - INFORMATIONAL MATERIALS

16. (a) During this 6 month reporting period, did you prepare, disseminate or cause to be disseminated any informational materials?¹²

Yes ☒ No ☐

If Yes, go to Item 17.

(b) If you answered No to Item 16(a), do you disseminate any material in connection with your registration?

Yes ☐ No ☐

If Yes, please forward the materials disseminated during the six month period to the Registration Unit for review.

17. Identify each such foreign principal.

States of Guernsey

States of Jersey

18. During this 6 month reporting period, has any foreign principal established a budget or allocated a specified sum of money to finance your activities in preparing or disseminating informational materials? Yes ☐ No ☒

If yes, identify each such foreign principal, specify amount, and indicate for what period of time.

19. During this 6 month reporting period, did your activities in preparing, disseminating or causing the dissemination of informational materials include the use of any of the following:

- ☐ Radio or TV broadcasts ☐ Magazine or newspaper ☐ Motion picture films ☐ Letters or telegrams
☐ Advertising campaigns ☐ Press releases ☒ Pamphlets or other publications ☐ Lectures or speeches
☐ Other (specify) _____

Electronic Communications

- ☐ Email
☐ Website URL(s): _____
☐ Social media websites URL(s): _____
☐ Other (specify) _____

20. During this 6 month reporting period, did you disseminate or cause to be disseminated informational materials among any of the following groups:

- ☒ Public officials ☐ Newspapers ☐ Libraries
☒ Legislators ☐ Editors ☐ Educational institutions
☒ Government agencies ☐ Civic groups or associations ☐ Nationality groups
☐ Other (specify) _____

21. What language was used in the informational materials:

- ☒ English ☐ Other (specify) _____

22. Did you file with the Registration Unit, U.S. Department of Justice a copy of each item of such informational materials disseminated or caused to be disseminated during this 6 month reporting period? Yes ☒ No ☐ See attached

23. Did you label each item of such informational materials with the statement required by Section 4(b) of the Act?

Yes ☒ No ☐

¹² The term informational materials includes any oral, visual, graphic, written, or pictorial information or matter of any kind, including that published by means of advertising, books, periodicals, newspapers, lectures, broadcasts, motion pictures, or any means or instrumentality of interstate or foreign commerce or otherwise. Informational materials disseminated by an agent of a foreign principal as part of an activity in itself exempt from registration, or an activity which by itself would not require registration, need not be filed pursuant to Section 4(b) of the Act.

VI- EXECUTION

In accordance with 28 U.S.C. § 1746, the undersigned swear(s) or affirm(s) under penalty of perjury that he/she has (they have) read the information set forth in this registration statement and the attached exhibits and that he/she is (they are) familiar with the contents thereof and that such contents are in their entirety true and accurate to the best of his/her (their) knowledge and belief, except that the undersigned make(s) no representation as to truth or accuracy of the information contained in the attached Short Form Registration Statement(s), if any, insofar as such information is not within his/her (their) personal knowledge.

(Date of signature)

(Print or type name under each signature or provide electronic signature¹³)

October 30, 2013

Richard M. McKenna

Digitally signed by Richard M. McKenna
DN: cn=Richard M. McKenna, o=White & Case, ou=emjrmckenna@whitecase.com, c=US
Date: 2013.10.30.16:14:21 -0400

¹³ This statement shall be signed by the individual agent, if the registrant is an individual, or by a majority of those partners, officers, directors or persons performing similar functions, if the registrant is an organization, except that the organization can, by power of attorney, authorize one or more individuals to execute this statement on its behalf.

White Case LLP
Partner Departures
April 1, 2013 - September 30, 2013

Region	Location	LASTNAME	FIRSTNAME	MINITIAL	Departure Date
Asia	Singapore - W&C Pte. Ltd	Hawkes	Kenneth	C	4/24/2013
Asia	Hong Kong	Tam	Virginia		5/3/2013
Asia	Tokyo	Wells	Christophe	P.	5/10/2013
EMEA	London	Fine	Anthony		7/5/2013
EMEA	Brussels	Odeurs	Stefan		4/5/2013
EMEA	Stockholm	Zettermarck	Claes		6/30/2013
Germany	Duesseldorf	Dlouhy	Alexander		7/9/2013
US	Los Angeles	Cairns	James	R.	6/30/2013
US	New York	Dreizen	Alison M.		4/30/2013
US	New York	Naylor	Jeremy	M.	5/17/2013
	Mexico	Orozco Waters	Rodrigo		8/30/2013

ITEM 4(b)

White Case LLP
New Partners
April 1, 2013 - September 30, 2013

LASTNAME	FIRSTNAME	INITIAL	RH	Partnership Date	CNTRYDESC	STREET	ADDRESS2	ADDRESS3	CITY	state2	ZIPCODE	CNTRYDESC
Allardice	Ross			8/5/2013	United Kingdom	18 Lancaster Avenue			London		SE27 9DZ	United Kingdom
Bender	Bodo			7/29/2013	Germany	Kiefenweg 33		Oberursel	Hessen		61440	Germany
Chung	Julian			6/17/2013	Hong Kong	Flat 7, 4/F Vivian Court	18-22 Mt. Kellett Road		Hong Kong		0	Hong Kong
Endreo	Gilles	R.		4/1/2013	France	13 Place des Vosges			Paris		75004	France
Gargaro	Cenzi			4/1/2013	United Kingdom	19 rue du Docteur Lancereaux			Paris	NK	75008	France
Herbelin	Philippe			4/1/2013	France	82 rue Notre Dame des champs			Paris	NK	75006	France
Kiem	Roger		-Re-hire	5/17/2013	Germany	Holbeinstraße 16			Frankfurt		60596	Germany
Le Vert	Thomas			4/1/2013	France	63 Avenue de Breteuil			Paris		75007	France
Leocani	Paola			6/10/2013	Italy	Via Brera 23			Milan		20121	Italy
Robillard	Severin			5/20/2013	France	16 rue Alphonse de Neuville			Paris		75017	France

Item 11

During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in Items 7, 8, and 9 of this statement?

States of Jersey	-General legal representation
States of Guernsey	-General legal representation
Government Of The Republic Of Singapore	-General legal representation
Kingdom of Jordan	-The Registrant has provided legal services in connection with pending or threatened U.S. litigation against the foreign principal. These legal services have included communications with U.S. government officials related to U.S. litigation and civil enforcement matters. The Registrant has also advised the foreign principal regarding public relations issues related to U.S. litigation matters.
Deutsche Bahn AG	-The Registrant has provided legal services in connection with pending or threatened U.S. litigation against the foreign principal. These legal services have included communications with U.S. government officials related to U.S. litigation and civil enforcement matters. The Registrant has also advised the foreign principal regarding public relations issues related to U.S. litigation matters.

Item 12

States of Jersey

Schedule of Contacts with U.S. Government Officials Involving Political Activities

Date of Contact	Name & Title of U.S. Government Official Contacted	Manner in which Contact made	Description of Subject Matter Discussed
4/22/2013	Christopher Smart Deputy Assistant Secretary for Eutope and Eurasia Treasury Department	Meeting & Handout	re: Tax Cooperation April 2013
	Jeffrey Baker Director, Europe and Asia Treasury Department	Meeting & Handout	re: Tax Cooperation April 2013
	Eric Weeks Country Officer Treasury Department	Meeting & Handout	re: Tax Cooperation April 2013
	Patrick Connell Chief - Ireland & UK Unit Office of Western European Affairs State Department	Meeting & Handout	re: Tax Cooperation April 2013
	Thomas A. Barthold Chief of Staff	Meeting & Handout	re: Tax Cooperation April 2013

Item 12

States of Jersey

Schedule of Contacts with U.S. Government Officials Involving Political Activities

Date of Contact	Name & Title of U.S. Government Official Contacted	Manner in which Contact made	Description of Subject Matter Discussed
	Joint Committee on Taxation		
	Jeffrey Vanderwolk Tax Counsel Senate Finance Committee	Meeting & Handout	re: Tax Cooperation April 2013
	Nicholas A. Wyatt Tax Counsel Senate Finance Committee	Meeting & Handout	re: Tax Cooperation
	Aharon Friedman Tax Counsel House Ways and Means Committee	Meeting & Handout	re: Tax Cooperation
	Aruna Kalyanam Tax Counsel House Ways and Means Committee	Meeting & Handout	re: Tax Cooperation
4/23/2013	Jack de Kluiver Asst. Deputy Chief Criminal Division Asset Forfeiture & Money Laundering	Meeting & Handout	re: Tax Cooperation

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States of Jersey**Schedule of Contacts with U.S. Government Officials Involving Political Activities**

Date of Contact	Name & Title of U.S. Government Official Contacted	Manner in which Contact made	Description of Subject Matter Discussed
	Justice Department		
	Jaikumar Ramaswamy Chief Criminal Division Asset Forfeiture & Money Laundering Justice Department	Meeting & Handout	re: Tax Cooperation
	Linda Samuel Deputy Chief Criminal Division Asset Forfeiture & Money Laundering Justice Department	Meeting & Handout	re: Tax Cooperation
	Daniel H. Claman Asst. Chief Asset Forfeiture & Money Laundering Justice Department	Meeting & Handout	re: Tax Cooperation
	Robert Roach, Esq. Counsel & Chief Investigator Senate Permanent Subcommittee on Investigations	Meeting & Handout	re: Tax Cooperation

Item 12

States of Jersey

Schedule of Contacts with U.S. Government Officials Involving Political Activities

Date of Contact	Name & Title of U.S. Government Official Contacted	Manner in which Contact made	Description of Subject Matter Discussed
	Robert B. Stack Deputy Assistant Secretary of International Tax Affairs	Meeting & Handout	re: Tax Cooperation
	Daniel L. Glaser Assistant Secretary for Terrorist Financing	Meeting & Handout	re: Tax Cooperation
	Adam Vaccaro Policy Advisor- Eruope Office of Gloal Affairs Terrorist Financing and Financial Crimes	Meeting & Handout	re: Tax Cooperation
	Chip Poncy Director Office of Strategic Policy for Terrorist Financing and Financial Crimes	Meeting & Handout	re: Tax Cooperation

States of Guernsey**Schedule of Contacts with U.S. Government Officials Involving Political Activities**

Date of Contact	Name & Title of U.S. Government Official Contacted	Manner in which Contact made	Description of Subject Matter Discussed
4/22/2013	Christopher Smart Deputy Assistant Secretary for Eutope and Eurasia Treasury Department	Meeting & Handout	re: Tax Cooperation April 2013
	Jeffrey Baker Director, Europe and Asia Treasury Department	Meeting & Handout	re: Tax Cooperation April 2013
	Eric Weeks Country Officer Treasury Department	Meeting & Handout	re: Tax Cooperation April 2013
	Patrick Connell Chief - Ireland & UK Unit Office of Western European Affairs State Department	Meeting & Handout	re: Tax Cooperation April 2013
	Thomas A. Barthold Chief of Staff	Meeting & Handout	re: Tax Cooperation April 2013

States of Guernsey**Schedule of Contacts with U.S. Government Officials Involving Political Activities**

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	Joint Committee on Taxation		
	Jeffrey Vanderwolk Tax Counsel Senate Finance Committee	Meeting & Handout	re: Tax Cooperation April 2013
	Nicholas A. Wyatt Tax Counsel Senate Finance Committee	Meeting & Handout	re: Tax Cooperation
	Aharon Friedman Tax Counsel House Ways and Means Committee	Meeting & Handout	re: Tax Cooperation
	Aruna Kalyanam Tax Counsel House Ways and Means Committee	Meeting & Handout	re: Tax Cooperation
4/23/2013	Jack de Kluiver Asst. Deputy Chief Criminal Division Asset Forfeiture & Money Laundering	Meeting & Handout	re: Tax Cooperation

Item 12

States of Guernsey

Schedule of Contacts with U.S. Government Officials Involving Political Activities

Date of Contact	Name & Title of U.S. Government Official Contacted	Manner in which Contact made	Description of Subject Matter Discussed
	Justice Department		
	Jaikumar Ramaswamy Chief Criminal Division Asset Forfeiture & Money Laundering Justice Department	Meeting & Handout	re: Tax Cooperation
	Linda Samuel Deputy Chief Criminal Division Asset Forfeiture & Money Laundering Justice Department	Meeting & Handout	re: Tax Cooperation
	Daniel H. Claman Asst. Chief Asset Forfeiture & Money Laundering Justice Department	Meeting & Handout	re: Tax Cooperation
	Robert Roach, Esq. Counsel & Chief Investigator Senate Permanent Subcommittee on Investigations	Meeting & Handout	re: Tax Cooperation

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States of Guernsey

Schedule of Contacts with U.S. Government Officials Involving Political Activities

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	Robert B. Stack Deputy Assistant Secretary of International Tax Affairs	Meeting & Handout	re: Tax Cooperation
	Daniel L. Glaser Assistant Secretary for Terrorist Financing	Meeting & Handout	re: Tax Cooperation
	Adam Vaccaro Policy Advisor- Eruope Office of Glogal Affairs Terrorist Financing and Financial Crimes	Meeting & Handout	re: Tax Cooperation
	Chip Poncy Director Office of Strategic Policy for Terrorist Financing and Financial Crimes	Meeting & Handout	re: Tax Cooperation

Item 14(a)

Foreign Agents Registration Act

Client Name	Date	Fees received	Purpose
Kingdom of Jordan	9/17/13	\$226,120	Legal Work
States of Jersey		\$0	Legal Work
States of Guernsey		\$0	Legal Work
Deutsche Bahn AG		\$0	Legal Work
Government of the Republic of Singapore		\$0	Legal Work

Item 15(a)

FARA

Client Name	Date	Disbursements Received	Purpose	Date of Travel	Traveller Name	Destination	Purpose of Travel
States of Jersey		\$0					
States of Guernsey		\$0					
Kingdom of Jordan	9/17/2013	\$230.74	Office Expense				
Deutsche Bahn AG		\$0					
Government of Singapore		\$0					

SECTION V – INFORMATIONAL MATERIALS

Copy of materials disseminated by the Government of the States of Guernsey to Treasury, State Department and Congressional Committees via handout during meetings on the tax and financial systems of the States of Guernsey which were attended by the Registrant as indicated in item 12.



**States of Guernsey Delegation
Washington, DC**

April 2013

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TAB 1: Guernsey Facts and Figures 2012—Selected Excerpts

TAB 2: Guernsey Policy on Tax Information Exchange Agreements (“TIEAs”) and Double Taxation Arrangements (“DTAs”) and List of Existing TIEAs and DTAs, dated March 26, 2013

TAB 3: United States – Guernsey TIEA

TAB 4: Internal Revenue Service Letter to Guernsey on TIEA Cooperation, dated December 19, 2007

TAB 5: Guernsey Press Release Dated October 9, 2012 Regarding Guernsey’s Negotiation of a FATCA-Compliant Intergovernmental Agreement

TAB 6: Guernsey Press Release Dated April 11, 2013 Regarding Guernsey’s Peer Review Report Phase 2: Implementation of the Standard in Practice

TAB 7: OECD Peer Review Report Phase 2: Implementation of the Standard in Practice 2013—Excerpts Describing Guernsey

TAB 8: Guernsey Financial Services Commission Annual Report 2011

TAB 9: Financial Stability Board Public Statement on Adherence to Regulatory and Supervisory Standards on International Cooperation and Information Exchange, dated November 2, 2011.

TAB 10: Guernsey Press Release, dated March 15, 2013 on Agreement with United Kingdom on FATCA Principles

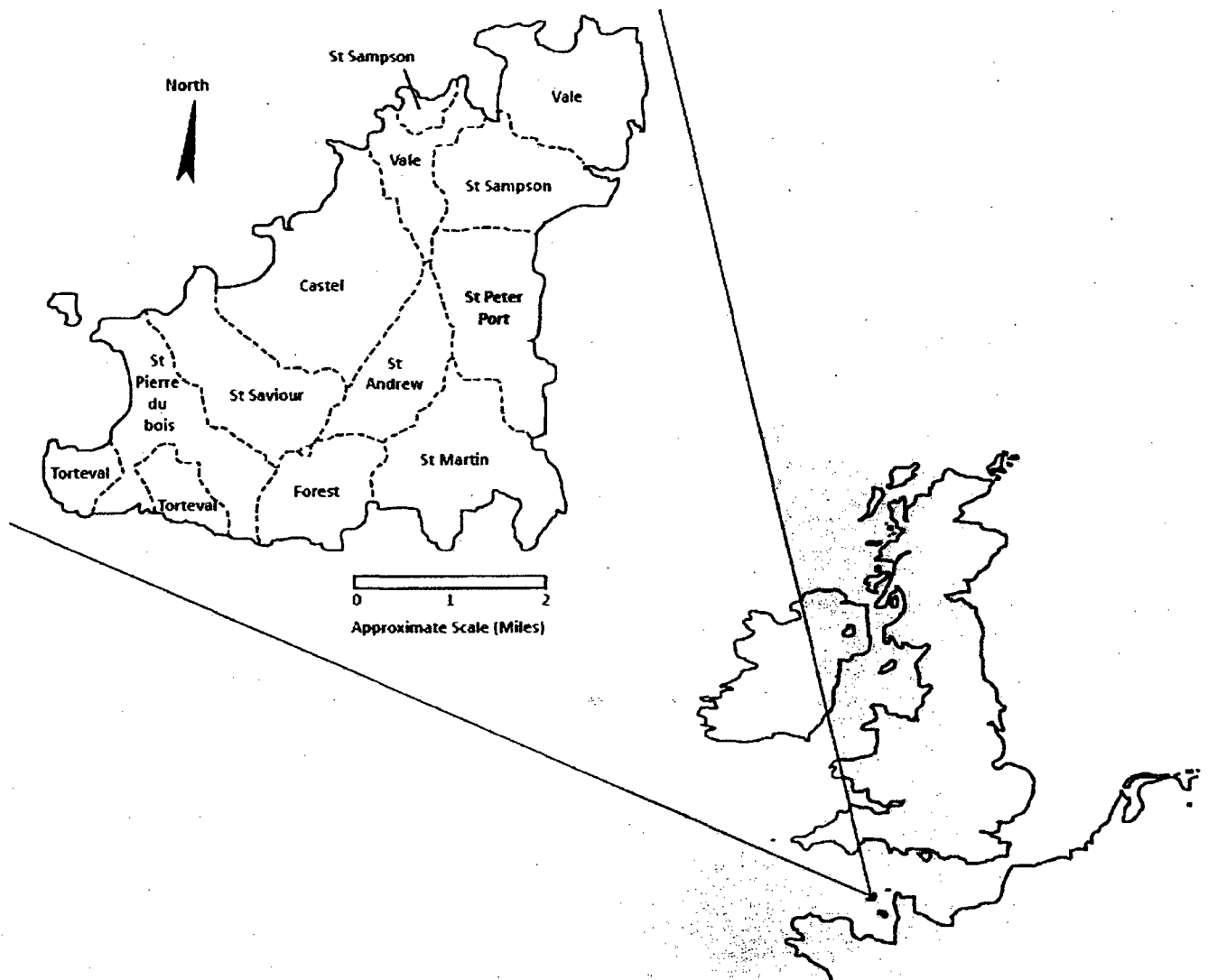
TAB 11: Letter of Entrustment to Guernsey To Negotiate an Asset-Sharing Agreement With the United States, dated November 26, 2012



POLICY COUNCIL
THE STATES OF GUERNSEY

Guernsey Facts and Figures

2012



The Island of Guernsey is located in the Bay of St. Malo, roughly 30 miles from the French coast and some 70 miles from the south coast of England. The Island has an area of approximately 24 square miles.

The Bailiwick of Guernsey includes a number of islands in addition to Guernsey - Alderney, Sark, Herm, Jethou, Brecqhou and Lihou.

Although Guernsey is geographically closer to the Normandy coast than the south coast of England, it is a dependency of the British Crown. The Lieutenant Governor is Her Majesty's personal representative and official channel of communication between the Crown and the UK Government and the Bailiwick.

The key offices held under the Crown are shown below:

Crown offices

Lieutenant Governor
Official representative of the Queen

Bailiff (and Deputy Bailiff)
Preside over States of Deliberation and Royal Court

HM Procureur (Attorney-General) and HM Comptroller (Solicitor-General)
Legal advisers to the Crown and the States

The Bailiwick is not represented in the UK Parliament. Acts of Parliament do not apply in the Bailiwick unless extended by Order in Council. The UK Government is responsible for the Bailiwick's international representation.

Special terms were negotiated for the Channel Islands on the UK's accession to the EEC. These are contained in Protocol 3 to the Treaty of Accession. The effect of the protocol is that the Bailiwick is within the Common Customs Area and the Common External Tariff (i.e. it enjoys access to EEC countries of physical exports without tariff barriers). Other Community rules do not apply to the Bailiwick.

Guernsey's parliament is called 'The States of Deliberation' and is elected by universal franchise. There are no political parties in Guernsey.

The work of the States of Guernsey is co-ordinated by the Policy Council which is constituted of the Chief Minister (chosen by the States from among the elected deputies) and the Minister of each of the ten Government Departments (one of which is elected to the role of Deputy Chief Minister).

There are also four Parliamentary Committees, which deal with non-executive functions such as scrutiny, review of draft legislation and the functioning of the States Assembly.

The States are able to convene Government and Special Committees to fulfil a specific function or review a particular area of legislation.

States of Deliberation

45 elected deputies plus 2 Alderney Representatives



A brief description of the role of each Department and Parliamentary Committee is given over leaf. For more detailed information, please see the States of Guernsey website: www.gov.gg

Table 1.1: Key data**Key economic indicators**

Gross Domestic Product (GDP) (2011 estimate)	£1.9bn
Retail Prices Index* (RPIX) (June 2012)	3.1%
Retail Prices Index* (RPI) (June 2012)	3.2%
Total number in employment (March 2012)	32,109
Registered unemployment rate (March 2012)	1.3%

Key social indicators

Population (March 2011)	62,915
Local market property price - mix adjusted average (March 2012)	£439,837
Reported criminal offences (2011)	2,094
Overseas aid as a percentage of GDP (2011)	0.14%

Key environmental indicators

Greenhouse gas emissions (2010)	379.1 Kt CO ₂
Energy supplied to consumers (2011)	1,247 GWh
Gas consumption (2011)	99 GWh
Electricity consumption (2011/12)	358 GWh
Oil imports (2011)	102 ML
Domestic recycling rate (2011)	46%
Total water consumption (2011)	4713 ML

*Annual percentage change in price index

Table 1.1 provides a summary of some of the key data presented in this booklet.

Table 2.1: GDP

	Nominal GDP (£M)	Reflated GDP (2011 prices - £M)	Annual % change (real)	Nominal GNP (£M)	Reflated GNP (2011 prices - £M)	Annual % change (real)
2002	1,317	1,773	1.5	1,395	1,878	0.9
2003	1,338	1,734	-2.2	1,424	1,845	-1.7
2004	1,453	1,795	3.5	1,497	1,849	0.2
2005	1,465	1,751	-2.4	1,502	1,795	-2.9
2006	1,584	1,814	3.6	1,621	1,855	3.3
2007	1,774	1,936	6.7	1,830	1,996	7.6
2008	1,841	1,986	2.6	1,888	2,037	2.0
2009E	1,827	1,928	-2.9	1,874	1,977	-2.9
2010E	1,818	1,875	-2.7	1,861	1,920	-2.9
2011E	1,895	1,895	1.0	1,940	1,940	1.1

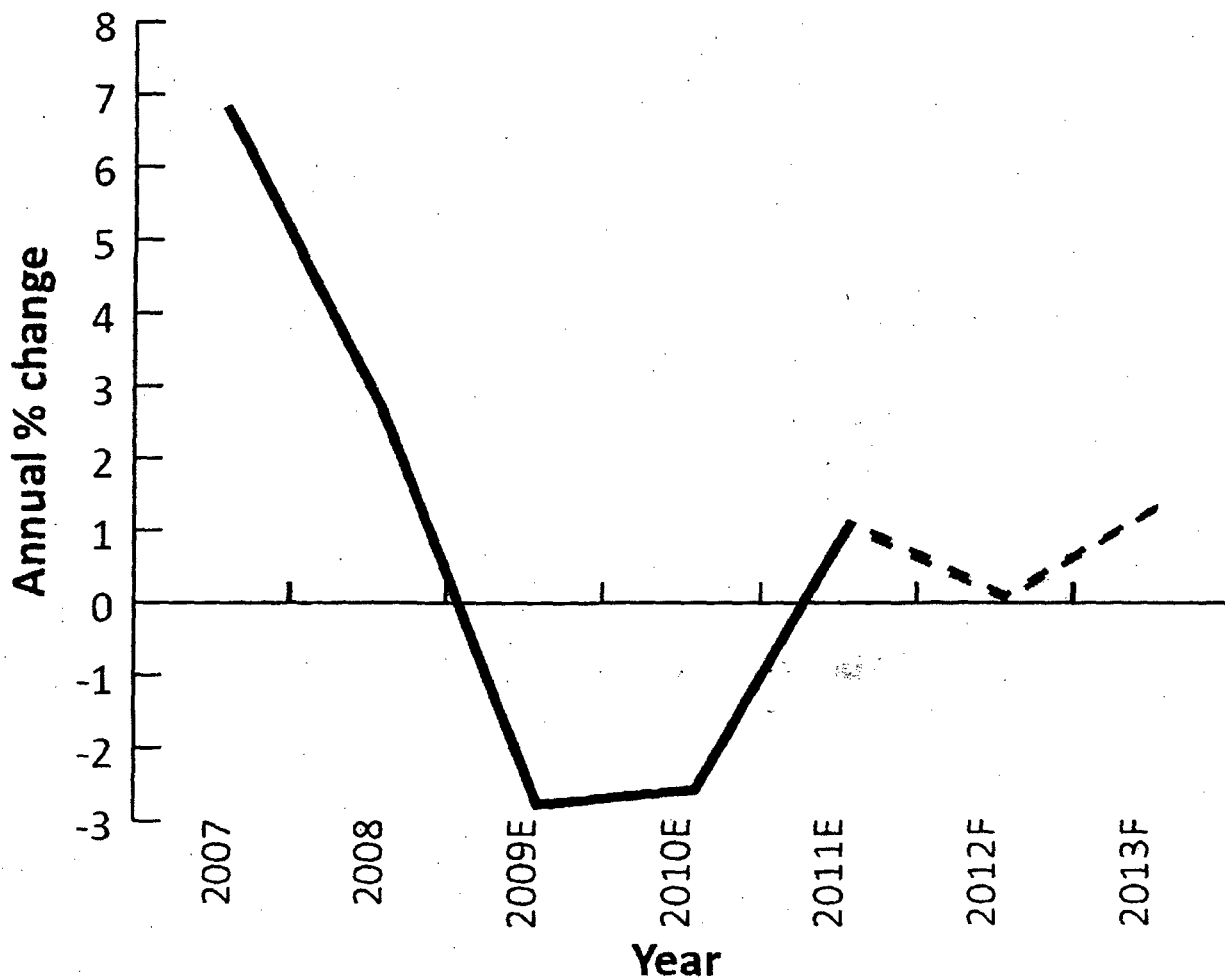
E = Estimate

Source: Policy and Research Unit

Gross Domestic Product (GDP) (Table 2.1) is the sum of the Island's income (wages, plus profits and other local income from capital) and is used as the principal measure of economic output in Guernsey.

Gross National Product (GNP) is GDP plus income received by residents and businesses from sources outside the Island.

The reflated (or real) figures take into account the effects of inflation. Data is presented in monetary values equivalent to 2011.

Figure 2.1: GDP forecasts

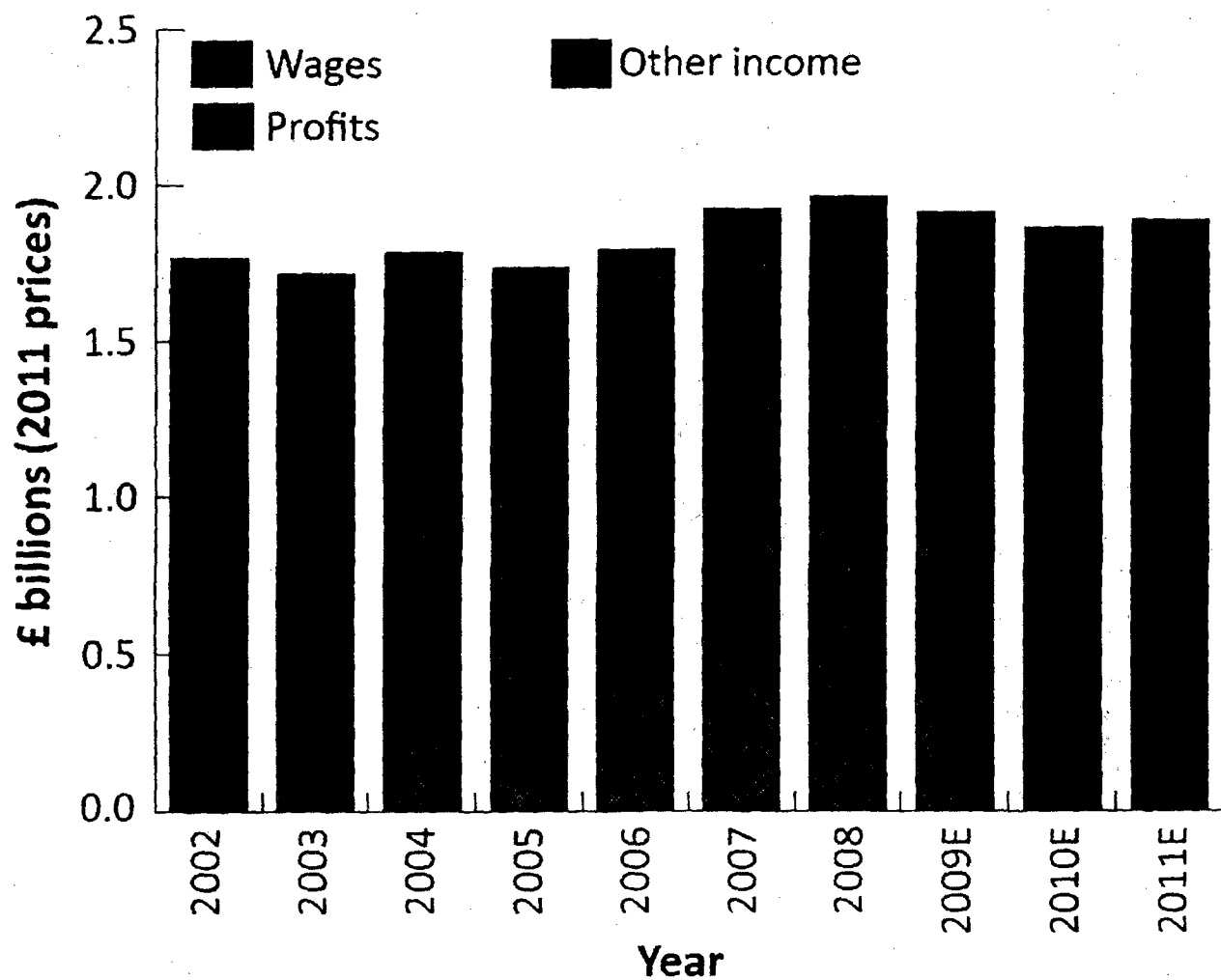
E = Estimate; F = Forecast

Source: Policy and Research Unit

Forecasting is an empirical tool that provides a range of possible outcomes based on econometrically derived past relationships between variables. It does not provide an outcome with certainty. In addition, if the relationships between the variables change (known in econometric terms as a 'structural' break) during the forecast period this will not be accounted for by the forecast.

Figure 2.1 shows the forecast real change in GDP for 2012 and 2013. The shaded area represents the 95% confidence bands. At the time of publication GDP was forecast to show no growth in 2012 and moderate growth in 2013.

Figure 2.2: Components of GDP (2011 prices)



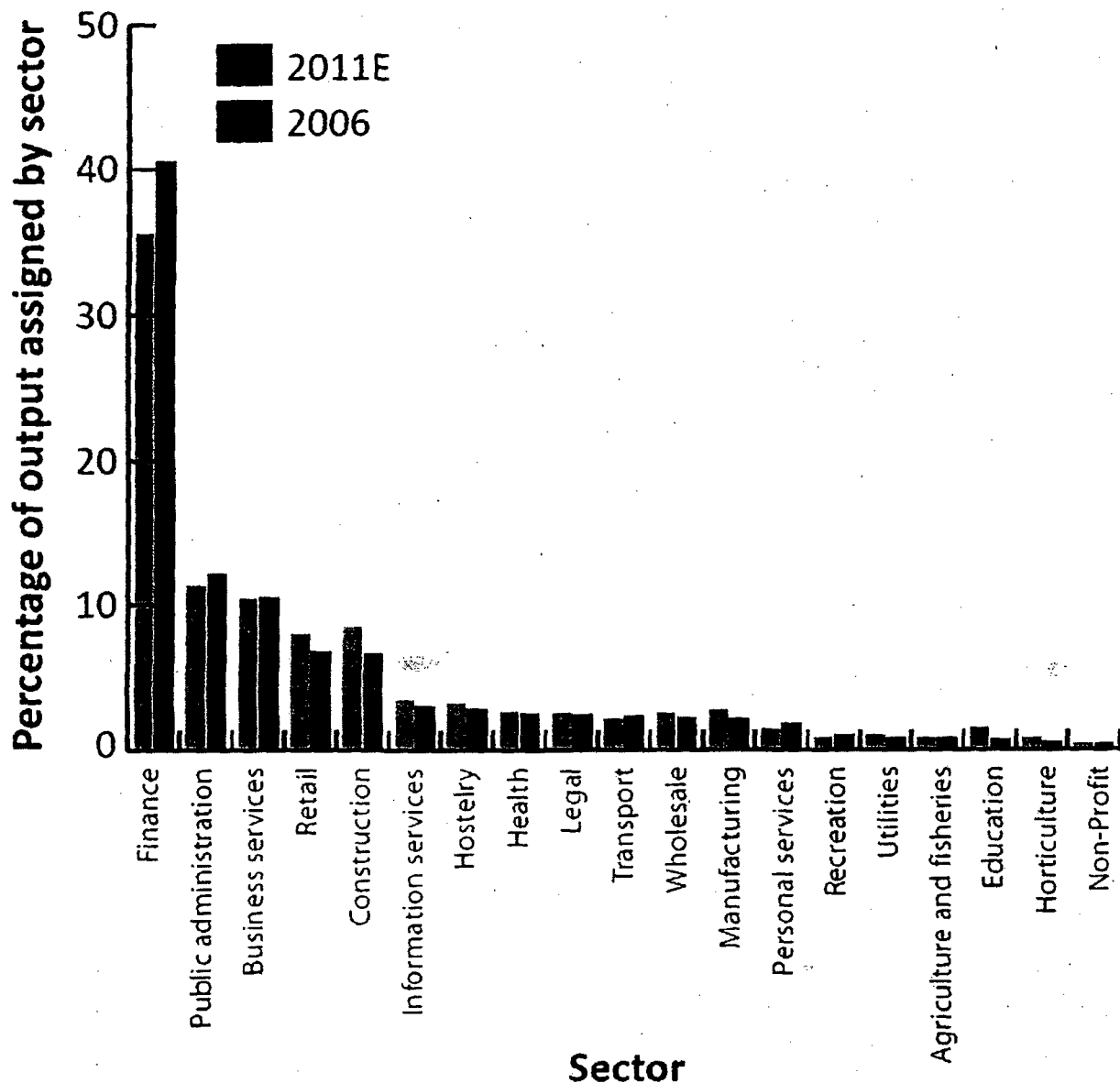
E = Estimate

Source: Policy and Research Unit

Table 2.2: Components of GDP (2011 prices)

	Wages (less pensions) (£M)	Profits (£M)	Other income (£M)	Total GDP (£M)
2007	1,025	653	258	1,936
2008	1,082	691	213	1,986
2009E	1,077	680	171	1,928
2010E	1,084	645	146	1,875
2011E	1,131	608	155	1,895

Source: Policy and Research Unit

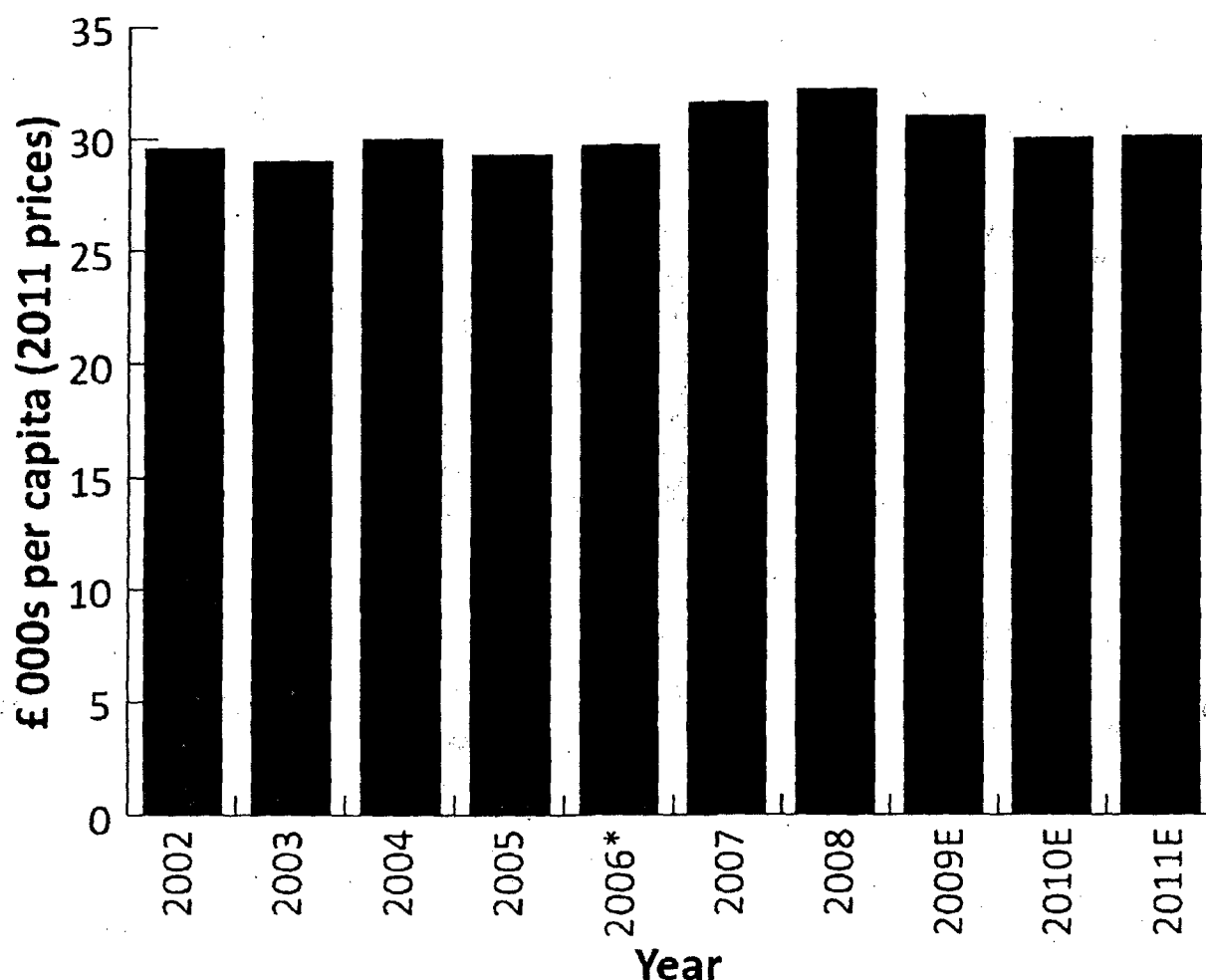
Figure 2.3: Output by sector

Source: Policy and Research Unit

Income from remuneration (wages) is the biggest contributor to GDP (Figure 2.2 and Table 2.2).

Figure 2.3 shows the proportion of output contributed by each sector. Output is the sum of wages, company profits and self-employed profits. In 2011 the finance sector had the largest output, contributing 41% of the estimated total output assigned by sector.

Figure 2.4: GDP per capita (2011 prices)



E = Estimate

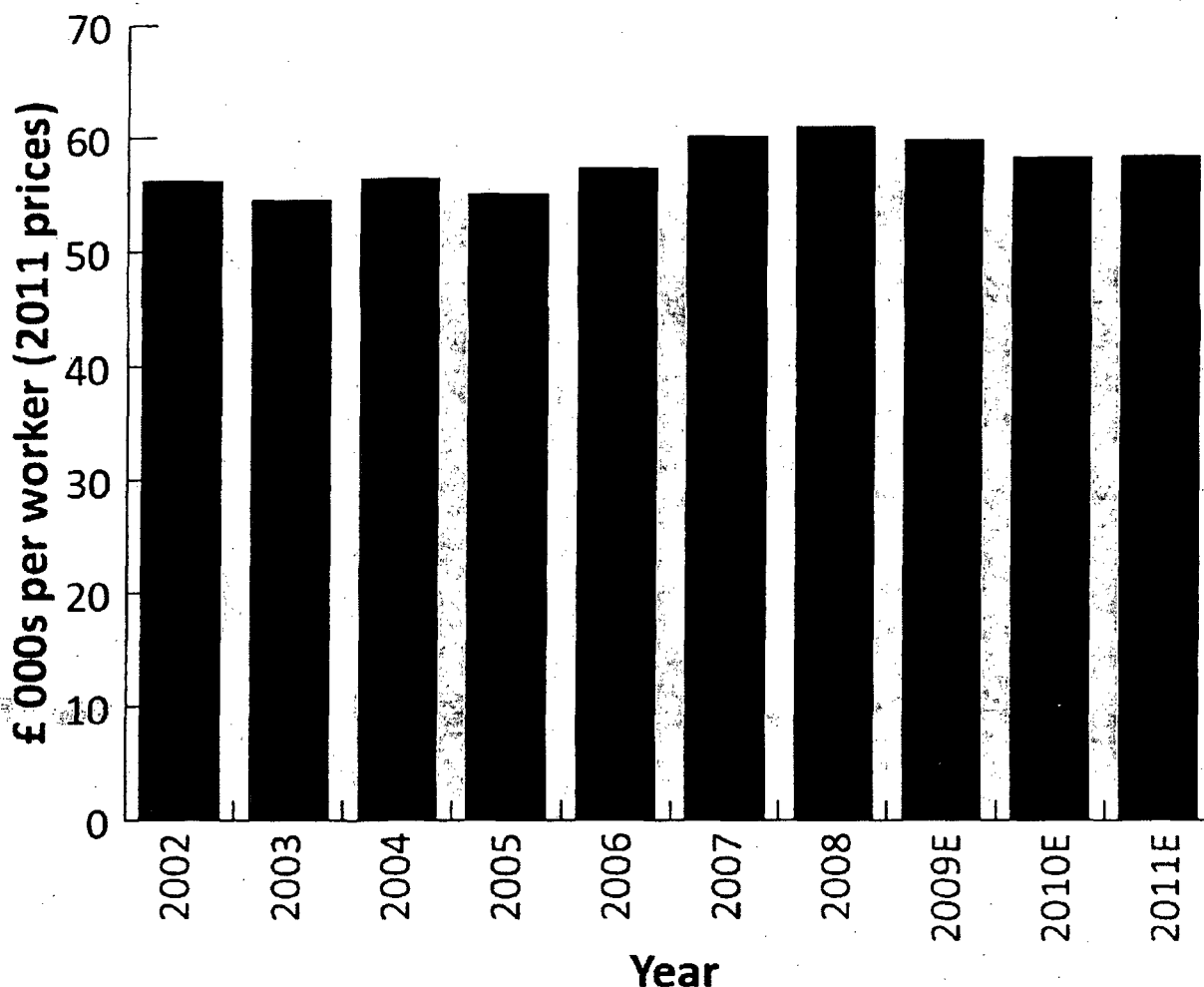
*From 2006, calculations are based on annual population estimates provided by the Social Security Department. Prior to 2006 figures are based on census population figures and estimates for the years between each census.

Source: Policy and Research Unit

Division of GDP by the total population gives GDP per capita (Figure 2.4), which can be used to compare living standards between countries. However, care should be taken, since there can be methodological differences between data sets from different countries.

2011 estimated GDP per capita was £30,112, 0.2% higher than in 2010 in real terms.

Figure 2.5: GDP per worker (2011 prices)



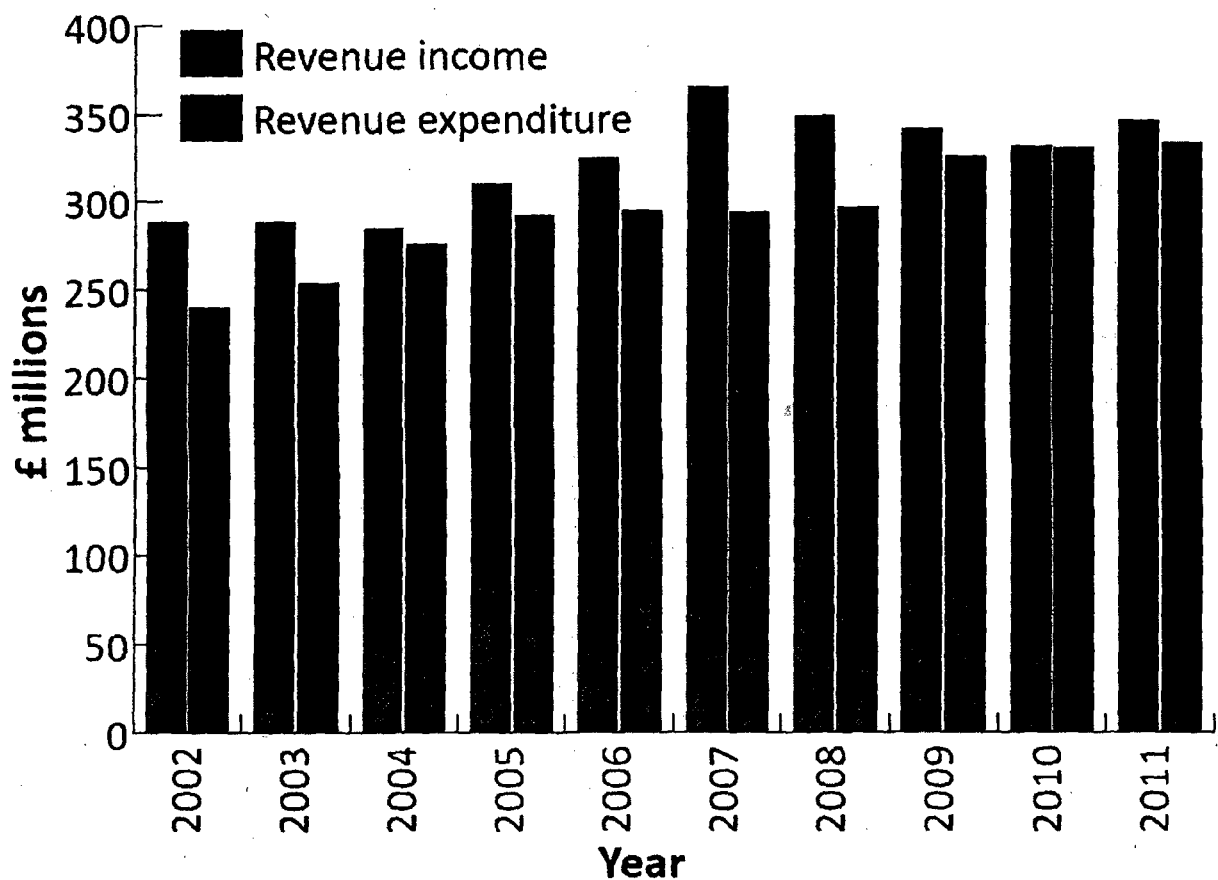
E = Estimate

Source: Policy and Research Unit

Division of GDP by the total workforce gives GDP per worker (Figure 2.5), which can be used to measure the economic output and productivity of the workforce. Care should be taken, since there can be methodological differences between data sets from different countries.

In 2011 estimated GDP per worker in Guernsey was £58,484, 0.3% higher than in 2010 in real terms.

Figure 2.6: Public revenue income and expenditure (nominal)



Source: Treasury and Resources Department

Table 2.4: General revenue income (nominal)

		2007	2008	2009	2010	2011
Direct taxes	Income tax (£M)	296	277	273	258	270
	Total (£M)	296	277	273	258	270
Duties and fees	Excise and import duties (£M)	18	28	29	32	33
	Document duty (£M)	24	15	14	18	17
	Company fees (£M)	8	6	6	6	9
	Motor vehicle tax (£M)	4	--	--	--	--
	Tax on real property* (£M)	6	10	13	14	15
	Other income (£M)	8	12	6	3	2
	Total (£M)	69	72	68	73	76
	Grand Total (£M)	365	349	341	331	346

NB. Due to the effects of rounding, figures may not sum to totals

*Prior to 2008, figures relate to Tax on Rateable Value.

Source: Treasury and Resources Department

The majority of Guernsey general revenue comes from income taxes, which accounted for 78% of total revenue in 2011 (Table 2.4).

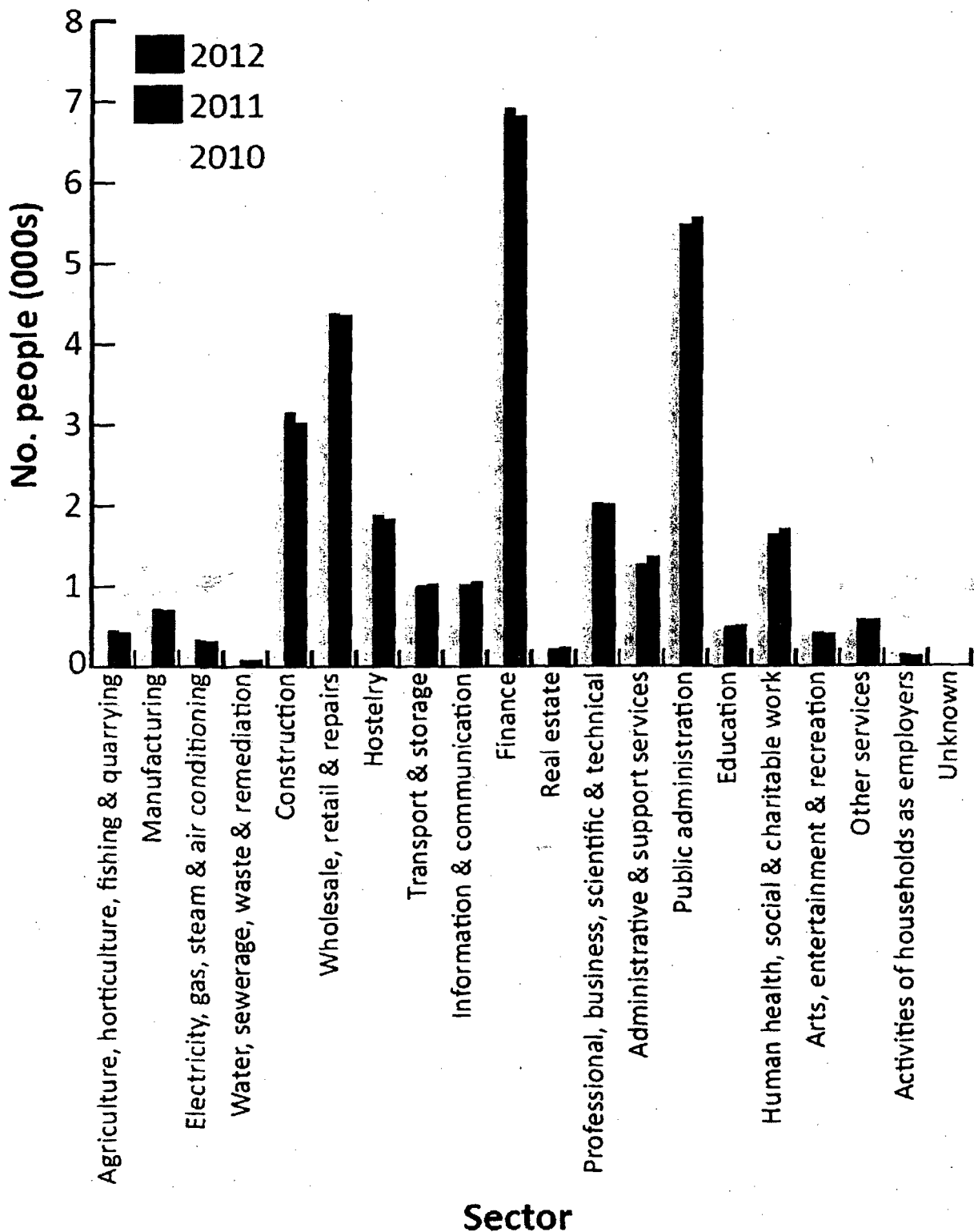
Import duties made the second largest contribution to general revenue. They include taxes on alcohol, tobacco and fuel, including the tax on vehicle fuel introduced in 2008 to replace motor vehicle tax.

Table 2.14 Employment by economic sector at March each year

	2009	2010	2011	2012
Agriculture, horticulture, fishing & quarrying	483	448	461	433
Manufacturing	728	716	714	698
Electricity, gas, steam & air conditioning	328	333	331	310
Water, sewerage, waste & remediation	68	72	92	88
Construction	3,177	3,051	3,151	3,030
Wholesale, retail & repairs	4,389	4,354	4,373	4,367
Hostelry	1,772	1,770	1,874	1,831
Transport & storage	976	955	1,016	1,022
Information & communication	1,041	1,037	1,021	1,051
Finance	7,113	6,835	6,903	6,815
Real estate	201	198	213	230
Professional, business, scientific & technical	1,891	1,928	2,027	2,010
Administrative & support services	1,302	1,248	1,273	1,367
Public administration	5,460	5,519	5,480	5,558
Education	468	464	485	516
Human health, social & charitable work	1,510	1,590	1,641	1,695
Arts, entertainment & recreation	383	384	410	397
Other services	499	520	567	568
Activities of households as employers	152	151	138	117
Unknown	40	32	16	6
Total	31,981	31,605	32,186	32,109

Source: Social Security Department

Figure 2.14: Employment by economic sector at March each year



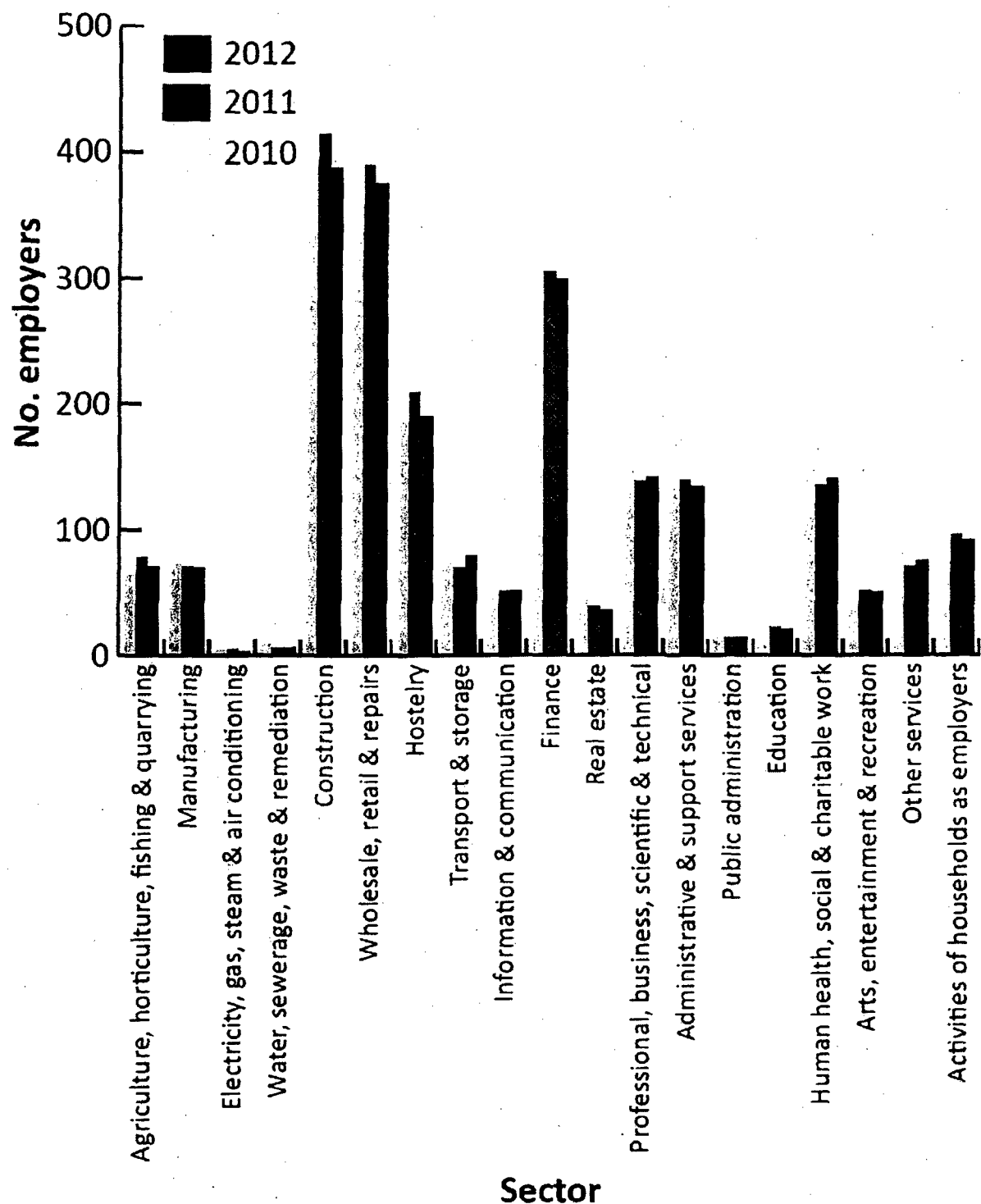
Source: Social Security Department

The finance sector employed the largest number of people in March 2012, comprising 21.2% of total employment (Table 2.14 and Figure 2.14).

Table 2.15: Employing organisations by size and sector at March 2012

Number of employees	Number of employing organisations				
	1 to 5	6 to 25	26 to 50	51+	Total
Agriculture, horticulture, fishing & quarrying	49	14	1	1	65
Manufacturing	45	24	1	3	73
Electricity, gas, steam & air conditioning	1	1	0	2	4
Water, sewerage, waste & remediation	6	2	0	1	9
Construction	278	104	7	5	394
Wholesale, retail & repairs	211	113	17	16	357
Hostelry	90	78	10	8	186
Transport & storage	39	22	9	5	75
Information & communication	28	14	3	5	50
Finance	144	105	39	33	321
Real estate	33	9	2	0	44
Professional, business, scientific & technical	93	43	7	7	150
Administrative & support services	87	33	7	6	133
Public administration	10	2	0	3	15
Education	14	4	2	4	24
Human health, social & charitable work	91	41	9	8	149
Arts, entertainment & recreation	35	12	2	1	50
Other services	81	16	1	1	99
Activities of households as employers	69	5	0	0	74
Total	1,404	642	117	109	2,272

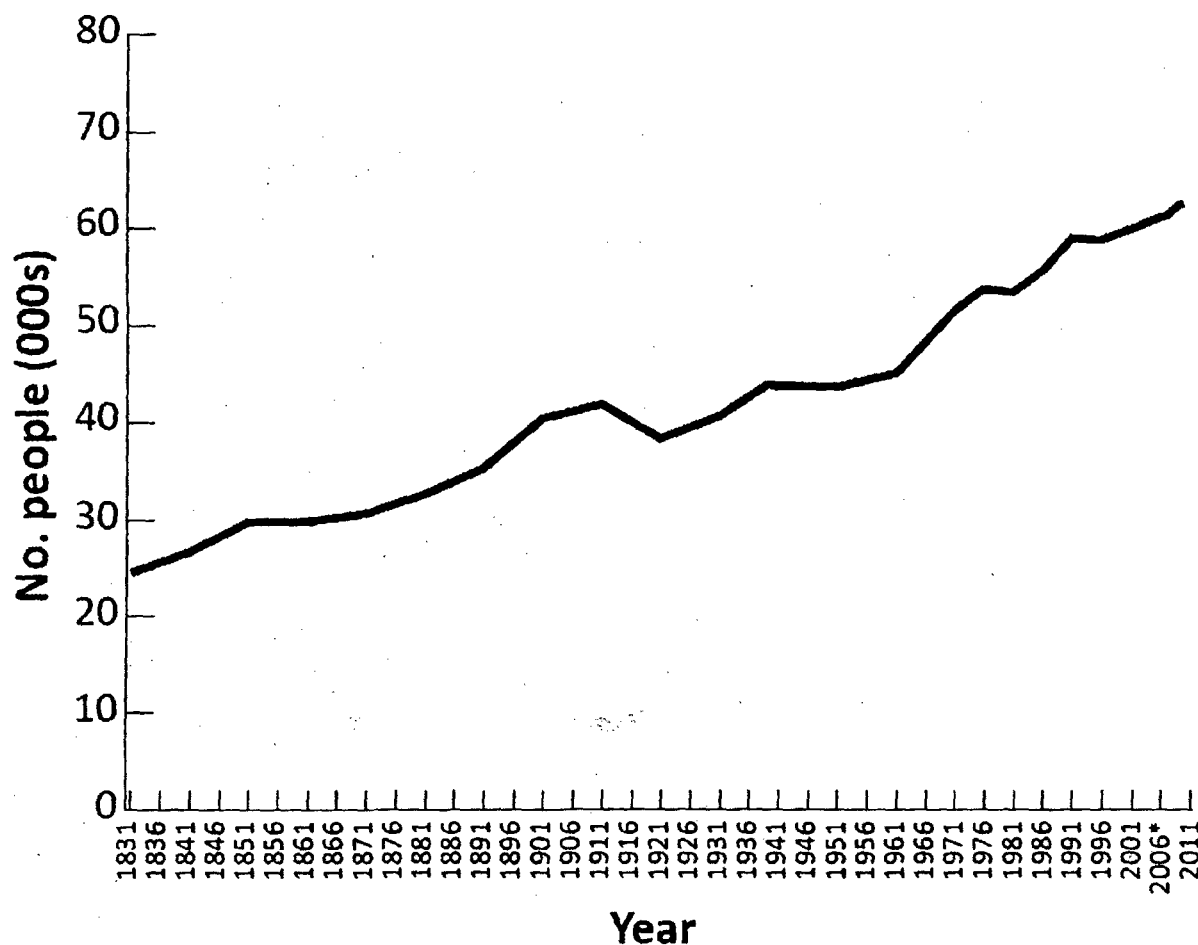
Source: Social Security Department

Figure 2.15: Employing organisations by sector at March each year

Source: Social Security Department

In March 2012 the construction sector had the highest number of employers, most of which had 5 or less employees (Table 2.15 and Figure 2.15). Of the organisations employing more than 50 people 30% were in the finance sector.

Figure 3.1: Guernsey's population level



Source: Census, Social Security Department

Figure 3.1 and Table 3.1 show the total population of Guernsey, Herm and Jethou. In March 2011 Guernsey's total population was 62,915*, an increase of 484 people since March 2010.

Historically, the female population in Guernsey has been larger than the male population. In March 2011 women represented 50.7% of the total population.

*Population estimates have been provided by the Social Security Department on an annual basis since March 2006 and quarterly since March 2007. Population information prior to this is based on census records with estimates used for intercensal years.

Table 3.1: Guernsey's population

	Male	Female	Total	Change
Census Data				
1911	20,661	21,197	41,858	1,000
1921	18,246	20,069	38,315	-3,000
1931	19,659	20,984	40,643	2,000
1939	21,750	22,070	43,820	3,000
1951	21,221	22,431	43,652	-
1961	21,671	23,397	45,068	1,000
1971	24,792	26,666	51,458	6,000
1976	25,909	27,728	53,637	2,000
1981	25,701	27,612	53,313	-
1986	26,867	28,615	55,482	2,000
1991	28,297	30,570	58,867	3,000
1996	28,244	30,437	58,681	-
2001	29,138	30,669	59,807	1,000
Social Security data				
2006*	30,034	30,995	61,029	
2007	30,022	31,153	61,175	
2008	30,405	31,321	61,726	
2009	30,777	31,497	62,274	
2010	30,695	31,736	62,431	
2011	31,025	31,890	62,915	

Source: Census, Social Security Department

**Guernsey's policy on Tax Information Exchange Agreements ("TIEAs")
and Double Taxation Arrangements ("DTAs")**
(Updated to 26 March 2013)

Background

The Government of Guernsey has a long-standing commitment to being a well-regulated, co-operative and transparent international finance centre. In January 2011 the International Monetary Fund (IMF) released its report on Guernsey as part of its financial stability assessment programme. The IMF concluded that Guernsey has met or exceeded the internationally accepted regulatory standards as endorsed by the G20. For example, the IMF concluded that Guernsey's level of compliance with the Financial Action Task Force (FATF) recommendations exceeded that of any other jurisdiction.

Guernsey was listed on the first OECD exchange of tax information "White List" established in 2009. In 2010, Guernsey was subject to the first of a two-phase peer review of its tax information exchange frameworks. Phase 2 took place in late 2012. The Report (Phase 2 of which will be placed before the Global Forum in late 2013) found Guernsey's legislative and administrative regime to have in place all of the elements necessary for meeting the international standard on transparency and information exchange (with only minor elements needing improvement).

Introduction

Guernsey has been fully committed to the OECD Project on Transparency and Exchange of Information for Tax Purposes for many years. Guernsey commenced negotiations on its first TIEA at the end of 2001 and gave formal commitment to the OECD process in February 2002. Guernsey concluded its first TIEA with the United States in September 2002.

In addition, Guernsey has participated in OECD, and latterly Global Forum, meetings on an active basis. Guernsey has also nominated five Assessors for the Global Forum Peer Review process. To date, Phase 1 Reviews have been undertaken on Austria, BVI, St Kitts and Nevis, Grenada and Montserrat, a combined Phase 1 and 2 Review of Turkey, and Phase 2 reviews of Austria and BVI.

Another demonstration of Guernsey's involvement in the work of the Global Forum is the proposal, made by Guernsey, during the Bermuda Global Forum Meeting in June 2011, that a separate forum for Competent Authorities should be established. This proposal was adopted by the Global Forum and the inaugural meeting of this body took place during May 2012, in Madrid. A second meeting is being held in May 2013, in the Netherlands.

Policy overview

In summary, therefore, Guernsey has not only committed to the process but has demonstrated that commitment in the years since 2002. As an offshore financial centre, Guernsey is often, unfairly, criticised as facilitating tax evasion and tax avoidance. Guernsey values its international reputation as a financial centre in the premier league of transparency and

information exchange. To defend that reputation, Guernsey often finds it appropriate to go one step beyond what may be expected of it in satisfying basic international standards.

The following are quotations from the "Handbook for Assessors and Jurisdictions", published by the Global Forum:

"Ultimately, the standard requires that jurisdictions exchange information with all relevant partners, meaning those partners who are interested in entering into an information exchange agreement."

"Better transparency and information exchange for tax purposes are key to ensuring that corporate and individual taxpayers have no safe haven to hide their income and assets and that they pay the right amount of tax in the right place."

Guernsey believes that the concept of "no safe haven" referred to by the Global Forum must, ultimately, envisage a worldwide network, where every territory has a TIEA or DTA with every other territory. Accepting that there may be economic, political or social reasons why success in achieving this should be considered as an aspiration, rather than wholly practical, nevertheless, and for the above reasons, and in order to give substance to Guernsey's commitment to the process, and to ensure that it safeguards its international reputation, Guernsey has the overall policy of actively negotiating TIEAs or DTAs with as many "relevant" jurisdictions, as defined in the Handbook, as possible. In doing this, however, Guernsey will take into account available resources and such economic, political and social factors.

Because, in the early years of the OECD process, Guernsey received relatively few requests from OECD Member Countries to negotiate TIEAs or DTAs, Guernsey took the decision to actively approach all OECD, EU and G20 Member Countries, with which it was not already negotiating, in order to request that negotiations commence.

Guernsey's strategic approach means that it has never prioritised the negotiation of a TIEA or a DTA with a country of no, or little, economic significance over a TIEA or a DTA with a country with which it has substantial relevant economic ties.

Present position

To date, Guernsey has signed 40 TIEAs with:

- Argentina on 22 July 2011(by Guernsey)/ 28 July 2011(by Argentina) (in force with effect from 4 January 2012)#
- Australia on 7 October 2009 (in force with effect from 27 July 2010)#
- Bahamas on 29 July 2011(by Guernsey) / 8 August 2011(by Bahamas) (in force with effect from 28 March 2012)
- Brazil# on 6 February 2013 (not yet in force)
- Canada on 19 January 2011(in force with effect from 18 January 2012)#
- Cayman Islands on 29 July 2011 (in force with effect from 5 April 2012)
- Chile on 4 April 2012 (by Guernsey) and 24 September 2012 (by Chile) (not yet in force)
- China on 27 October 2010 (in force with effect from 17 August 2011)#
- Czech Republic on 15 September 2011(in force with effect from 9 July 2012)*

- Denmark on 28 October 2008 (in force with effect from 6 June 2009)*
- Faroe Islands on 28 October 2008 (in force with effect from 21 August 2009)
- Finland on 28 October 2008 (in force with effect from 5 April 2009)*
- France on 24 March 2009 (in force with effect from 4 October 2010)*#
- Germany on 26 March 2009 (in force with effect from 22 December 2010)*#
- Greece on 29 September 2010 (by Greece) / 8 October 2010 (by Guernsey) (not yet in force)*
- Greenland on 28 October 2008 (in force with effect from 25 April 2009)
- Iceland on 28 October 2008 (in force with effect from 26 November 2009)
- India on 20 December 2011 (in force with effect from 11 June 2012)#
- Indonesia on 27 April 2011 (not yet in force)#
- Ireland on 26 March 2009 (in force with effect from 10 June 2010)*
- Italy on 5 September 2012 (not yet in force)*#
- Japan on 6 December 2011 (not yet in force)#
- Latvia on 5 September 2012 (not yet in force)*
- Mauritius on 6 February 2013 (not yet in force)
- Mexico on 10 June 2010 (by Mexico)/27 June 2010 (by Guernsey) (in force with effect from 24 March 2012)#
- Netherlands on 25 April 2008 (in force with effect from 11 April 2009)*
- New Zealand on 21 July 2009 (in force with effect from 8 November 2010)
- Norway on 28 October 2008 (in force with effect from 8 October 2009)
- Poland on 6 December 2011 (in force with effect from 1 November 2012)*
- Portugal on 9 July 2010 (not yet in force)*
- Romania on 12 January 2011 (by Romania)/17 January 2011 (by Guernsey) (in force with effect from 22 January 2012)*
- San Marino on 29 September 2010 (in force with effect from 16 March 2011)
- Seychelles on 20 December 2011 (in force with effect from 22 July 2012)
- Slovenia on 26 September 2011 (in force with effect from 9 August 2012)*
- South Africa on 21 February 2011 (in force with effect from 26 February 2012)#
- St Kitts and Nevis on 18 January 2012 (by St Kitts and Nevis) / 7 February 2012 (by Guernsey) (in force with effect from 14 April 2013)
- Sweden on 28 October 2008 (in force with effect from 23 December 2009)*
- Turkey on 13 March 2012 (not yet in force)#
- United Kingdom on 20 January 2009 (in force with effect from 27 November 2009)*#
- United States on 19 September 2002 (in force with effect from 30 March 2006)#

(* Indicates an EU Member State)

(# Indicates a G20 Member)

It can be seen, therefore, that Guernsey's existing TIEAs cover:

- 16 G20 Members.
- 16 EU Member States.

Ongoing work

Guernsey has concluded discussions on TIEAs with the following countries and is ready to make arrangements to sign the Agreements as soon as both territories have completed their internal requirements enabling them to sign:

- Austria*
- Bermuda
- Botswana
- BVI
- Gibraltar
- Hungary*
- Kenya
- Korea (Republic of)#
- Lesotho
- Lithuania*
- Malawi
- Slovak Republic*
- Spain*
- Swaziland
- Switzerland
- Turks and Caicos
- Zambia

It can be seen that the above includes:

- 1 further G20 member, and
- 5 EU Member States.

In addition to the above, Guernsey has virtually concluded TIEA negotiations with:

- Costa Rica
- Malaysia
- Montserrat
- Uruguay.

The following TIEA negotiations are ongoing and, it is anticipated, will be concluded during 2013:

- Belgium*
- Bulgaria*(negotiations scheduled for October 2013)
- Macau (negotiations being scheduled for during October 2013)

Furthermore, the following countries have responded to requests from Guernsey to negotiate TIEAs, indicating that this is under consideration:

- Estonia*
- Panama

Saudi Arabia (a G20 Member) initially did not respond to Guernsey's request to negotiate. Contact was established in March 2013 and it is hoped that progress can now be made swiftly. Russia (a G20 Member) has, to date, declined Guernsey's offer to negotiate.

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Guernsey is willing to negotiate DTAs in place of, or in addition to, TIEAs, and it is indeed the policy of some countries to negotiate DTAs in preference to TIEAs.

Partial DTAs (dealing with such issues as personal tax matters, shipping and aircraft and/or mutual agreement procedures) have also been signed with 11 countries:

- Australia on 7 October 2009 (in force with effect from 24 August 2011)#
- Denmark on 28 October 2008 (in force with effect from 4 November 2009)*
- Faroes on 28 October 2008 (in force with effect from 15 January 2010)
- Finland on 28 October 2008 (in force with effect from 11 November 2009)*
- Greenland on 28 October 2008 (in force with effect from 19 November 2009)
- Iceland on 28 October 2008 (in force with effect from 26 November 2009)
- Ireland on 26 March 2009 (in force with effect from 10 June 2009)*
- Japan (contained in the same agreement as the TIEA) on 6 December 2011 (not yet in force)#
- New Zealand (contained in the same agreement as the TIEA) on 21 July 2009 (in force with effect from 8 November 2010)
- Norway on 28 October 2008 (in force with effect from 5 November 2009)*
- Sweden on 28 October 2008 (in force with effect from 23 December 2009)*

Similar discussions are currently ongoing with the Netherlands* (restricted DTAs on individuals and shipping/aircraft) (negotiations almost concluded).

Similar negotiations have been concluded with Poland* (restricted DTAs on individuals and shipping/aircraft) and arrangements to sign the Agreements will be made as soon as both territories have completed their internal requirements enabling them to sign

Guernsey has had 2 **comprehensive DTAs** dating from the 1950s (with the United Kingdom and Jersey). Guernsey has more recently signed 5 further comprehensive DTAs with:

- Malta on 12 March 2012 (in force with effect from 10 March 2013)*
- Isle of Man on 24 January 2013 (not yet in force)
- Jersey (a revision to Guernsey's DTA with Jersey dating from the 1950s) on 24 January 2013 (not yet in force)
- Qatar on 22 February 2013 (not yet in force)
- Singapore on 6 February 2013 (not yet in force)

The following **comprehensive DTA** negotiations have been completed and arrangements to sign the Agreements are currently being made:

- Hong Kong
- Luxembourg*

The following **comprehensive DTA** negotiations are advanced or have commenced, or will, or are anticipated to, commence in 2013:

- Bahrain (negotiations almost concluded)
- Cyprus* (negotiations to commence May 2013)
- Liechtenstein (negotiations almost concluded)
- Monaco (negotiations almost concluded)
- Seychelles
- United Arab Emirates

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It should be clear from the above, therefore, that Guernsey has actively sought TIEAs and DTAs with its major "trading partners". Where negotiated agreements have not yet been signed this is solely due to the fact that the internal requirements necessary for them to move to signature have not yet been completed by both parties. Guernsey has never refused, of its own accord, to negotiate a TIEA or DTA with any territory.

Guernsey imposes income tax and has an active regime of detecting and investigating avoidance and evasion. For that reason, Guernsey has an interest in seeking TIEAs and DTAs with those territories where experience shows Guernsey residents may conduct transactions.

The future

Guernsey is now in the position where it has negotiated, or has ongoing / forthcoming negotiations with, all OECD, G20 and EU economies, except for Israel, Russia and Saudi Arabia.

As part of its involvement with the Global Forum, Guernsey is aware that the Global Forum is now making a priority of TIEAs or DTAs with developing countries (and promoting multilateral negotiations/instruments for this purpose). Guernsey has already taken the initiative in this regard in relation to some Members of SADC (South African Development Community). Guernsey was the first offshore financial centre to have actively sought negotiations with Members of SADC, and it is hoped that other Members of SADC and/or the African Tax Administration Forum ("ATAF") will join in the process. Guernsey would be open, therefore, to not only expanding further its TIEA/DTA network with developing countries within Africa, but also in other continents.

In addition, from time to time, Guernsey will be approached by jurisdictions. Sometimes those jurisdictions will be "white listed" by the Global Forum and sometimes they are not. As indicated above, the terms of reference for the Peer Review process clearly indicate that:

"Ultimately, the standard requires that jurisdictions exchange information with all relevant partners, meaning those partners who are interested in entering into an information exchange arrangement."

Where approaches are made to Guernsey by such jurisdictions which are white listed (and thereby covered by the existing Letter of Entrustment), and with political agreement for it to do so, the Guernsey Income Tax Office is prepared to consider entering into negotiations (absent any overriding reason why that should not be the case, such as political or social turmoil which has occurred since the jurisdiction was white listed).

Where such approaches are made by territories which are not white listed, Guernsey would evaluate the approach and if it was considered that negotiations were in the best interests of Guernsey (whether for economic or reputational reasons) the Guernsey Income Tax Office would approach the Ministry of Justice in the United Kingdom to make a request for an extension of the existing Letter of Entrustment.

Summary

- Guernsey is politically and actively committed to the principles of transparency and the exchange of information for tax purposes.
- Guernsey stands ready to sign a significant number of TIEAs and DTAs which have already been negotiated, once the other jurisdictions are in a position to do so.
- Amongst its existing, and prospective, TIEA and DTA partners are all OECD/EU/G20 Members with the exception of Israel (OECD) and Russia (G20), which have either declined or not taken up Guernsey's proposal to negotiate.
- Guernsey has never refused to negotiate a TIEA or DTA with any territory.
- Guernsey has never prioritised the negotiation of a TIEA or a DTA with a country of no, or little, economic significance over a TIEA or a DTA with a country with which it has substantial relevant economic ties.

R GRAY

26th March 2013

The text of all signed agreements can be accessed at;

<http://www.gov.gg/international-agreements>

**AGREEMENT BETWEEN THE GOVERNMENT OF THE
UNITED STATES OF AMERICA AND THE
GOVERNMENT OF THE STATES OF GUERNSEY
FOR THE EXCHANGE OF INFORMATION RELATING TO TAXES**

Whereas Guernsey has long been active in international efforts in the fight against financial and other crimes, including recent efforts involving terrorist financing;

Whereas the Internal Revenue Service of the United States has determined Guernsey's "know your customer" rules to be acceptable for purposes of the Qualified Intermediary regime, which provides simplified withholding and reporting obligations for payments of income from the United States to an account holder through one or more foreign intermediaries;

Whereas the Government of the States of Guernsey and the Government of the United States ("the parties") recognise that present legislation already provides for the exchange of information in criminal tax matters, which under current practice is conducted by the United States through the Department of Justice and by Guernsey through its Attorney General;

Whereas the parties wish to establish the terms and conditions governing the exchange of information relating to taxes;

Now, therefore, the parties have agreed as follows:

Article 1

Scope of the Agreement

The parties shall provide assistance through exchange of information that is foreseeably relevant to the administration and enforcement of the domestic laws of the parties concerning the taxes covered by this Agreement, including information that is foreseeably relevant to the determination, assessment, enforcement or collection of tax with respect to persons subject to such taxes, or to the investigation or prosecution of criminal matters in relation to such persons.

Article 2

Jurisdiction

To enable the scope of this Agreement to be implemented, information shall be provided in accordance with this Agreement by the competent authority of the requested party without regard to whether the person to whom the information relates is, or whether the information is held by, a resident of a party. A requested party is not obliged to provide information which is neither held by its authorities nor in the possession of persons who are within its territorial jurisdiction.

Article 3
Taxes Covered

1. This Agreement shall apply to the following taxes imposed by the parties:
 - (a) in the case of the United States, all federal taxes,
 - (b) in the case of Guernsey, all insular taxes.
2. This Agreement shall apply also to any identical or substantially similar taxes imposed after the date of signature of the Agreement in addition to or in place of the existing taxes if the parties so agree. The competent authority of each party shall notify the other of changes in laws which may affect the obligations of that party pursuant to this Agreement.
3. This Agreement shall not apply to the extent that an action or proceeding concerning taxes covered by this Agreement is barred by the requesting party's statute of limitations.
4. This Agreement shall not apply to taxes imposed by states, municipalities or other political subdivisions, or possessions of a party.

Article 4
Definitions

1. In this Agreement:

"competent authority" means, for the United States, the Secretary of the Treasury or his delegate,

and for Guernsey, the Administrator of Income Tax or his delegate, except that until a date not later than January 1, 2006, Her Majesty's Attorney General for Guernsey may act as the competent authority in respect of criminal tax matters;

"criminal laws" means all criminal laws designated as such under domestic law, irrespective of whether contained in the tax laws, the criminal code or other statutes;

"criminal tax matters" means tax matters involving intentional conduct which is liable to prosecution under the criminal laws of the requesting party;

"information gathering measures" means judicial, regulatory, criminal or administrative procedures enabling a requested party to obtain and provide the information requested;

"information" means any fact, statement, document or record in whatever form;

"person" means a natural person, a company or any other body or group of persons;

"requested party" means the party to this Agreement which is requested to provide or has provided information in response to a request;

"requesting party" means the party to this Agreement submitting a request for or having received information from the requested party;

"resident" means:

- (a) in the case of the United States, any United States citizen and any legal person, partnership, corporation, trust, estate, association, or other entity deriving its status as such from the laws in force in the United States; and
- (b) in the case of Guernsey, any person resident in Guernsey, for the purposes of the Income Tax (Guernsey) Law 1975, as amended.

"tax" means any tax covered by this Agreement.

- 2. For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "United States" means the United States of America, including Puerto Rico, the Virgin Islands, Guam, and any other United States possession or territory.

For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "Guernsey" means Guernsey, Alderney and Herm.

- 3. Any term not defined in this Agreement, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article 10, shall have the meaning which it has under the laws of the parties relating to the taxes which are the subject of this Agreement.

Article 5

Exchange of Information Upon Request

- 1. The competent authority of the requested party shall provide upon request by the requesting party information for the purposes referred to in Article 1. Such information shall be exchanged without regard to whether the requested party needs such information for its own tax purposes or the conduct being investigated would constitute a crime under the laws of the requested party if it had occurred in the territory of the requested party. The competent authority of the requesting party shall only make a request for information pursuant to this Article when it is unable to obtain the requested information by other means, except where recourse to such means would give rise to disproportionate difficulty.
- 2. If the information in the possession of the competent authority of the requested party is not sufficient to enable it to comply with the request for information, the requested party shall take all relevant information gathering measures to provide the requesting party with the information requested, notwithstanding that the requested party may not, at that time, need such information for its own tax purposes.

3. If specifically requested by the competent authority of the requesting party, the competent authority of the requested party shall provide information under this Article, to the extent allowable under its domestic laws, in the form of depositions of witnesses and authenticated copies of original records.
4. Each party shall ensure that it has the authority, for the purposes referred to in Article 1 of this Agreement and subject to Article 2 of this Agreement, to obtain and provide, through its competent authority and upon request:
 - (a) information held by banks, other financial institutions, and any person, including nominees and trustees, acting in an agency or fiduciary capacity;
 - (b) information regarding the beneficial ownership of companies, partnerships and other persons, including in the case of collective investment funds, information on shares, units and other interests; and in the case of trusts, information on settlors, trustees and beneficiaries, provided that this Agreement does not create an obligation for a party to obtain or provide ownership information with respect to publicly traded companies or public collective investment funds, unless such information can be obtained without giving rise to disproportionate difficulties.
5. Any request for information made by a party shall be framed with the greatest degree of specificity possible. In all cases, such requests shall specify in writing the following:
 - (a) the identity of the taxpayer under examination or investigation;
 - (b) the period of time with respect to which the information is requested;
 - (c) the nature of the information requested and the form in which the requesting party would prefer to receive it;
 - (d) the matter under the requesting party's tax law with respect to which the information is sought;
 - (e) the reasons for believing that the information requested is foreseeably relevant or material to tax administration and enforcement of the requesting party, with respect to the person identified in subparagraph (a) of this paragraph;
 - (f) reasonable grounds for believing that the information requested is present in the requested party or is in the possession of a person within the jurisdiction of the requested party;
 - (g) to the extent known, the name and address of any person believed to be in possession or control of the information requested;
 - (h) a statement that the request conforms to the law and administrative practice of the requesting party and would be obtainable by the requesting party under its laws or in the normal course of administrative practice in similar circumstances, both for its own tax purposes and in response to a valid request from the requested party under this Agreement;

- (i) a statement that the requesting party has pursued all reasonable means available in its own territory to obtain the information, except where that would give rise to disproportionate difficulty.

Article 6

Tax Investigations Abroad

1. By reasonable notice given in advance, a party may request that the other party allow officials of the requesting party to enter the territory of the requested party, to the extent permitted under its domestic laws, to interview individuals and examine records with the prior written consent of the individuals concerned. The competent authority of the requesting party shall notify the competent authority of the requested party of the time and place of the intended meeting with the individuals concerned.
2. At the request of the competent authority of the requesting party, the competent authority of the requested party may permit representatives of the competent authority of the requesting party to attend a tax examination in the territory of the requested party.
3. If the request referred to in paragraph 2 is granted, the competent authority of the requested party conducting the examination shall, as soon as possible, notify the competent authority of the requesting party of the time and place of the examination, the authority or person authorised to carry out the examination and the procedures and conditions required by the requested party for the conduct of the examination. All decisions regarding the conduct of the examination shall be made by the requested party conducting the examination.

Article 7

Possibility of Declining a Request

1. The competent authority of the requested party may decline to assist:
 - (a) where the request is not made in conformity with this Agreement;
 - (b) where the requesting party has not pursued all means available in its own territory to obtain the information, except where recourse to such means would give rise to disproportionate difficulty; or
 - (c) where the disclosure of the information requested would be contrary to the public policy of the requested party.
2. This Agreement shall not impose upon a party any obligation:
 - (a) to provide items subject to legal privilege, nor any trade, business, industrial, commercial or professional secret or trade process, provided that information described in Article 5(4) shall not by reason of that fact alone be treated as such a secret or trade process; or

- (b) to carry out administrative measures at variance with its laws and administrative practices, provided that nothing in this subparagraph shall affect the obligations of a party under Article 5(4).
- 3. A request for information shall not be refused on the ground that the tax liability giving rise to the request is disputed by the taxpayer.
- 4. The requested party shall not be required to obtain and provide information which the requesting party would be unable to obtain in similar circumstances under its own laws for the purpose of the administration/enforcement of its own tax laws or in response to a valid request from the requested party under this Agreement.

Article 8

Confidentiality

- 1. All information provided and received by the competent authorities of the parties shall be kept confidential.
- 2. Information provided to the competent authority of a requesting party may not be used for any purpose other than for the purposes stated in Article 1, without the prior express written consent of the requested party.
- 3. Information provided shall be disclosed only to persons or authorities (including judicial, administrative and Congressional oversight authorities) officially concerned with the purposes specified in Article 1, and used by such persons or authorities only for such purposes or for oversight purposes, including the determination of any appeal. For these purposes, information may be disclosed in public court proceedings or in judicial proceedings.
- 4. Information provided to a requesting party under this Agreement may not be disclosed to any third party, including an agency or employee of any other government.

Article 9

Costs

The requesting party shall reimburse the requested party for all direct costs incurred in providing information pursuant to this Agreement. The respective competent authorities shall consult from time to time with regard to this Article, and in particular the competent authority of the requested party shall consult with the competent authority of the requesting party if the costs of providing information with respect to a specific request are expected to be significant.

Article 10

Mutual Agreement Procedure

Where difficulties or doubts arise between the parties regarding the implementation or interpretation of this Agreement, the respective competent authorities shall use their best efforts to resolve the matter by mutual agreement.

Article 11
Mutual Assistance Procedure

If both competent authorities of the parties consider it appropriate to do so they may agree to exchange technical know-how, develop new audit techniques, identify new areas of non-compliance, and jointly study non-compliance areas.

Article 12
Entry into Force

This Agreement shall enter into force when each party has notified the other of the completion of its necessary internal procedures for entry into force. Upon entry into force, it shall have effect for criminal tax matters forthwith and, in respect of other matters covered in Article 1, on January 1, 2006, or such earlier date as may be agreed in an exchange of letters by the competent authorities.

Article 13
Termination

1. This Agreement shall remain in force until terminated by either party.
2. Either party may terminate this Agreement by giving notice of termination in writing. Such termination shall become effective on the first day of the month following the expiration of a period of three months after the date of receipt of notice of termination by the other party.
3. A party which terminates this Agreement shall remain bound by the provisions of Article 8 with respect to any information obtained under this Agreement.

In witness whereof the undersigned being duly authorised in that behalf by the respective parties, have signed the Agreement.

Done at Washington in duplicate this nineteenth day of September, 2002.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE
STATES OF GUERNSEY:



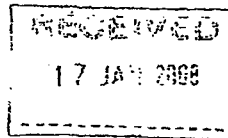
LARGE AND MID-SIZE
BUSINESS DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEC 19 2007

5-C 2CL)

Mr. K.R.L. Forman
Administrator of Income Tax
States of Guernsey Income Tax Office
2 Cornet Street
St. Peter Port
Guernsey C.I. GY1 3AZ



Subject: TIEA Request Concerning

Dear Mr. Forman:

I would like to take this opportunity to express my gratitude to you and your staff for your efforts in obtaining the requested information under our Tax Information Exchange Agreement (TIEA). In particular, I would like to commend Messrs. Rob Gray and Richard Green for their tireless efforts in helping us obtain the required information on this first TIEA request.

Several highly productive discussions took place over the past few months. These discussions involved the administrative TIEA process, in general, and the specific request. We hope to continue this cooperative relationship in the future and look forward to continuing discussions once our new Tax Attaché, Ms. Kelli Winegardner, arrives in London in the earlier part of next year.

Thank you again for your assistance on this matter.

Sincerely,

Barry B. Shott
Deputy Commissioner (International)
Large and Mid-Size Business

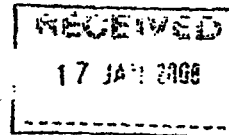
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LARGE AND MID-SIZE
BUSINESS DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEC 19 2007



Mr. K.R.L. Foman
Administrator of Income Tax
States of Guernsey Income Tax Office
2 Cornet Street
St. Peter Port
Guernsey C.I. GY1 3AZ

Subject: TIEA Request Concerning

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Sincerely,

Barry B. Shott
Deputy Commissioner (International)
Large and Mid-Size Business

STATES OF GUERNSEY

Foreign Account Tax Compliance Act (FATCA) - Crown Dependencies simultaneous announcement

Tuesday 09 October 2012

The Governments of Guernsey, Jersey and the Isle of Man are today simultaneously announcing their intention to negotiate partnership agreements with the United States of America to implement FATCA.

These agreements will follow the model intergovernmental agreement published by the US Government on 26 July 2012 and will be similar in form to the agreement between the United Kingdom and the USA signed on 12 September 2012. This follows consultation with industry representatives who have given their support for the proposed course of action.

Discussions have taken place at official level between the Crown Dependencies jointly and the USA, and formal negotiations will now take place with the intention of concluding intergovernmental agreements rapidly. Once signed, they will be subject to ratification by each of the Island parliaments and implementation of the agreements will be through the domestic legislative procedures relevant to each of the three jurisdictions.

Deputy Peter Harwood, Chief Minister, said:

"Basing FATCA implementation on an intergovernmental agreement is preferred by industry in all three Crown Dependencies. We are pleased to confirm our joint intention to follow this approach with the US Government. This announcement today provides certainty for our business community as they also prepare for FATCA. Entering into this type of arrangement highlights the cooperative approach of the Crown Dependencies to international tax matters and confirms Guernsey's commitment to being a well-regulated, internationally co-operative tax transparent jurisdiction. I am particularly pleased that the three Crown Dependencies have worked together and adopted a common position on this issue."

-ENDS-

Contact information:

Philip Henderson, External Affairs Officer

Email: pressroom@gov.gg

Tel: 01481 717131



Media Release

11 April 2013

OECD's GLOBAL FORUM REPORT CONFIRMS THAT GUERNSEY CONTINUES TO MEET INTERNATIONAL STANDARDS ON TAX TRANSPARENCY AND INFORMATION EXCHANGE

The Global Forum on Transparency and Exchange of Information for Tax Purposes ("Global Forum") has announced that it has adopted Guernsey's Peer Review report – endorsing Guernsey as continuing to meet the international standards of transparency and tax information exchange.

The review, undertaken by the members of the Global Forum – the global leader in the field of international co-operation in tax matters – is an independent and comprehensive technical review of the legal and practical framework in place in Guernsey for exchanging tax information under international agreements.

The review examined Guernsey's compliance with the Global Forum's Terms of Reference, which are broken down into 10 overall elements, which are then further broken down into 31 aspects. Guernsey was found to have all of the essential elements assessed to date in place.

Chief Minister Deputy Peter Harwood said:

"This is a rigorous examination by expert Assessors versed in the legal and practical systems required to comply with international standards in this field. Guernsey was one of the first jurisdictions to have undergone a stand-alone Phase 2 review, and has been found to have all of those essential elements that have been assessed in place. In short, we have shown that we continue to meet the international standards of transparency, co-operation and information exchange in tax matters."

The Peer Review was carried out in two phases: the first, in late 2010, looked at the legal framework; and the second, in late 2012, examined the practical system in place for effective exchange of information. The Income Tax Office led the Guernsey response to the two phases of the Peer Review with detailed technical input from others including St James' Chambers, Commerce and Employment, the Guernsey Financial Services Commission, the Company Registry and the Guernsey Border Agency.

Minister for the Treasury & Resources Department, Deputy Gavin St Pier said:

"Guernsey has been committed to the principles of transparency and exchange of information for tax purposes since making a political commitment to the OECD in 2002. We have 40 signed Tax Information Exchange Agreements (TIEAs) and five Double Taxation Agreements (DTA), all of which meet the highest international standards, and more are in various stages of negotiation. We also exchange information under agreements equivalent to the EU Savings Tax Directive and we are in negotiation with the US on an Intergovernmental Agreement relating to FATCA and with the UK on a similar package of measures."

The Global Forum has 120 members (including the EU), and a number of international organisations as observers. The Global Forum regularly updates the G20 on its progress, and an update which includes the findings from Guernsey's report will be delivered to the G20 Finance ministers and Central Bank Governors for their meeting on 18-19 April 2013.

Ends

Notes to media

1. The OECD defines itself as "a forum of countries committed to democracy and the market economy, providing a setting to compare policy experiences, seek answers to common problems, identify good practices, and co-ordinate domestic and international policies." Collaboration at the OECD regarding taxation has fostered the growth of a global web of bilateral tax treaties.

2. The Global Forum, initiated by the OECD, has been the driving force behind the development and acceptance of the international standards of transparency and exchange of information in tax matters.

3. The over-arching areas covered by the Peer Reviews are: ownership information; accounting information; banking information; and effective exchange of information mechanisms, processes and networks for relevant entities (including banks, companies, trusts, partnerships and foundations).

GLOBAL FORUM ON TRANSPARENCY AND EXCHANGE
OF INFORMATION FOR TAX PURPOSES

**Peer Review Report
Phase 2
Implementation of the Standard
in Practice**

GUERNSEY



Executive Summary

1. This report summarises the legal and regulatory framework for transparency and exchange of information in Guernsey as well as the practical implementation of that framework. The international standard, which is set out in the Global Forum's Terms of Reference to Monitor and Review Progress Towards Transparency and Exchange of Information, is concerned with the availability of relevant information within a jurisdiction, the competent authority's ability to gain access to that information, and in turn, whether that information can be effectively exchanged on a timely basis with its exchange of information partners. The assessment of effectiveness in practice has been performed in relation to a three year period (2009 through 2011).

2. The Bailiwick of Guernsey is a jurisdiction comprising three self-governing legislatures: Guernsey (including the islands of Herm and Jethou), Alderney and Sark (including the island of Brecqhou). The present report covers the jurisdictions of Guernsey and Alderney, which are effectively a single jurisdiction for taxation purposes. Sark is a separate jurisdiction for taxation purposes and the issue of the implementation of the international standards of transparency and exchange of information for tax purposes by Sark is not comprehensively dealt with in this report but has been considered separately by the Global Forum.

3. Guernsey's and Alderney's domestic laws establish a satisfactory framework to ensure that relevant ownership, identity, banking and accounting information is available. First, there are obligations imposed directly on companies, partners and trustees to retain and, in some instances, to provide such information to government authorities. This is complemented by obligations imposed through the licensing regime applicable to certain regulated business activities, including most partners, directors, corporate service providers, nominees, trustees and protectors of a trust.

4. The anti-money laundering regulations, which apply to regulated financial businesses and relevant professionals, create a third layer of requirements to capture relevant information. An oversight agency has been created in the Bailiwick, i.e. the Guernsey Financial Services Commission (GFSC) which is responsible for safeguarding compliance with regulatory and anti-money

8 - EXECUTIVE SUMMARY

laundering obligations. The GFSC wields an array of enforcement measures over fiduciary licensees, including private warnings, public statements, investigatory powers, and cancellation of licences. Financial penalties are also available to sanction breaches of obligations. In practice, the tax and company registration of entities are enforced in Guernsey and information has been found to be available in all instances for EOI purposes.

5. Pursuant to the recently enacted Income Tax (Keeping of Records, etc) (Amendment) Regulations 2012, domestic laws now consistently require the retention of reliable accounting information that includes underlying documentation. The implementation of these regulations should be monitored by Guernsey. Obligations to retain bank information on all account holders are established as a result of regulatory requirements imposed on banks as well as the Bailiwick's anti-money laundering regime.

6. Domestic laws enacted since 2006 provide the competent authority with powers to require the production of relevant information, which include confidentiality safeguards and access enforcement tools. Access relies predominantly on the issuance of notices for the production of information, and in some instances a search and seizure warrant may also be issued. Notification rights are not provided for in the legislation, and anti tipping-off provisions ensure that the person concerned should not be informed of a notice to third parties in serious cases. The competent authority has not experienced any difficulties in practice in accessing information required for EOI purposes. Compliance with the request process is high in Guernsey, thus the competent authority has never needed to employ sanctions or search and seizure powers to compel the production of information, nor has a request for information for EOI purposes been appealed in court. There have been no instances of attorney-client privilege or bank confidentiality legislation being invoked.

7. Guernsey has made substantive progress in expanding its EOI network, predominantly since 2006, and this has been combined with the development of a complementary domestic process based on clear internal guidelines to manage requests received from its EOI partners. All of the 38 TIEAs and its recently concluded DTC meets the international standard.

8. Guernsey has been exchanging information in accordance with the international standards since 2007. During the period 2009 through 2011, Guernsey received 32 requests from 8 different jurisdictions, with a clear increase of the numbers of requests and EOI partners. Although Guernsey started receiving requests for information relatively recently, input received from the exchange of information partners of Guernsey suggests that the competent authority of Guernsey provides the information requested quickly (mostly within 90 days and in some occasion within 180 days), despite a high rate of clarifications sought by Guernsey before requests are processed (44%

EXECUTIVE SUMMARY - 9

of the requests). The development of very cooperative relationships between competent authorities gives rise to efficient exchanges of information in practice.

9. A follow up report on the steps undertaken by Guernsey to answer the recommendations made in this report should be provided to the PRG within twelve months after the adoption of this report.

Introduction

Information and methodology used for the peer review of Guernsey

10. The assessment of the legal and regulatory framework of Guernsey and the practical implementation and effectiveness of this framework was based on the international standards for transparency and exchange of information as described in the Global Forum's Terms of Reference, and was prepared using the Global Forum's Methodology for Peer Reviews and Non-Member Reviews. The assessment has been conducted in two stages: Phase 1, performed in 2010, assessed Guernsey's legal and regulatory framework for the exchange of information, while Phase 2, performed in 2012, looked at the practical implementation of that framework, as well as any amendments made to the legal and regulatory framework since the Phase 1 review. The assessment is, therefore, based on the laws, regulations, and exchange of information mechanisms in force or effect as at January 2013. It reflects Guernsey's responses to the Phase 1 and Phase 2 questionnaires and supplementary questions, other materials supplied by Guernsey during the Phase 2 on-site visit that took place from 29-30 August 2012 in St. Peter Port, Guernsey, and information supplied by exchange of information partners. During the on-site visit, the assessment team met with officials and representatives of the Income Tax Office, the Attorney General's Office, the Companies Registrar, Guernsey Financial Services Commission, Commerce and Employment Department, and the Guernsey Border Agency within which the FIU is located (see Annex 4).

11. The Phase 1 and Phase 2 assessments were conducted by assessment teams comprising expert assessors and two representatives of the Global Forum Secretariat. In 2010, these were: Ms. Valeria Sperandeo from the Italian Revenue Agency, Assessment Directorate, International Division, Exchange of Information Office; Miss Balbir Kaur, senior tax specialist with the Tax Policy and International Tax Division of the Inland Revenue Authority of Singapore; and Ms. Renata Fontana and Ms. Gwenaëlle Le Coustumer from the Global Forum Secretariat. In 2012, the assessment team was composed of Ms. Giovanna Corona, Senior Tax Officer, International Relations

12 - INTRODUCTION

Directorate, Ministry of Economy and Finance of Italy; Mr. Colin Chew, Director-Tax Investigation of the Inland Revenue Authority of Singapore; and Ms. Laura Hershey and Ms. Gwenaëlle Le Coustumer from the Global Forum Secretariat.

12. The Terms of Reference break down the standards of transparency and exchange of information into ten essential elements and 31 enumerated aspects under three broad categories: (A) availability of information, (B) access to information, and (C) exchanging information. This review assesses Guernsey's legal and regulatory framework against these elements and each of the enumerated aspects. In respect of each essential element a determination is made that either: (i) the element is in place, (ii) the element is in place but certain aspects of the legal implementation of the element need improvement, or (iii) the element is not in place. These determinations are accompanied by recommendations for improvement where relevant. In addition, to reflect the Phase 2 component, an assessment is also made concerning Guernsey's practical application of each of the essential elements. As outlined in the Note on Assessment Criteria, following a jurisdiction's Phase 2 review, a "rating" will be applied to each of the essential elements to reflect the overall position of a jurisdiction. However, this rating will only be published "at such time as a representative subset of Phase 2 reviews is completed". This report therefore includes recommendations in respect of Guernsey's legal and regulatory framework and the actual implementation of the essential elements, as well as a determination on the legal and regulatory framework, but it does not include a rating of the elements (see the Summary of Determinations and Factors Underlying Recommendations at the end of this report).

Overview of Guernsey

Economic context

13. The Bailiwick of Guernsey consists of a group of islands (Guernsey, Alderney, Sark, Herm, Jethou and Brecqhou) located in the English Channel off the coast of France. It is the 26th smallest country in the world with a population of 65 000. English is the official language. The official currency is the Pound Sterling (GBP),¹ in currency union with the United Kingdom.

14. Guernsey's nominal Gross Domestic Product (GDP) for 2011 was GBP 1 895 million. The finance and professional services sectors of Guernsey jointly account for 27% of employment and 48% of GDP. Aside from financial and professional services, the industrial sector comprises construction (6.2%), tourism (2.8%) and manufacturing (2%), in addition to agriculture (3%).

1. On 1 October 2012, GBP 1 = EUR 1.24; EUR 1 = GBP 0.81.

Governance and legal system

15. As a British Crown Dependency, the Bailiwick of Guernsey is independently administered and is neither a part of the United Kingdom nor a member of the European Union. The Head of State is the Queen, represented by the Lieutenant Governor. The relationship between the Bailiwick of Guernsey and the United Kingdom is based on practice, custom, convention, usage and Statute enacted in Westminster and extended by consent to the Islands. The Bailiwick of Guernsey is also subject to the uncodified constitution of the United Kingdom governing the relationship of the UK with the Crown Dependencies.

16. The Bailiwick of Guernsey is a jurisdiction comprising three self-governing legislatures:

- Guernsey (which includes Herm and Jethou), whose legislature is the States of Deliberation comprising the presiding judge of the Royal Court of Guernsey (the Bailiff) as ex-officio Presiding Officer, 45 elected People's Deputies, two elected Representatives of the States of Alderney as a result of a 1948 tax agreement, and the two Law Officers of the Crown (Sark is not represented therein). The States of Deliberation (the States) sit for a term of four years. Powers granted to the States include the power to raise taxes, determine expenditure, and pass legislation which then requires the assent of the Queen to become law. Any reference to "Guernsey" in the report covers the island of Herm, unless specifically provided otherwise.
- Alderney, whose legislature is the States of Alderney, has a legal system separate from Guernsey (e.g. with separate legislation on companies), except for tax purposes (see below).
- Sark (which includes Brecqhou), whose legislature is the Chief Pleas of Sark, has no income tax, no company law (thus no companies are registered or incorporated therein) and no licensed banks (banking services in Sark are provided by two sub-branches of branches of banks that operate in Guernsey. There are no Sark banks).

17. Guernsey is the largest and most populous island in the Bailiwick, and the legislative competence of the States of Deliberation is wider than that of the States of Alderney and the Chief Pleas of Sark as it is, for example, able to enact criminal legislation which has effect throughout the Bailiwick. Sark and Alderney are also subject to Guernsey's regime for the regulation of the finance industry by the Guernsey Financial Services Commission (GFSC) and to the Bailiwick's Anti-Money Laundering and the Countering the Financing of Terrorism (AML/CFT) regime.

14 - INTRODUCTION

18. The judicial system is comprised of Magistrates' Courts, and the Royal Court, which is made up of a Bailiff and 16 permanently elected Jurats. The Royal Court of Guernsey is (in both criminal and civil matters) the appellate court for the Court of Alderney and the Court of the Seneschal of Sark, which in criminal matters possess only limited powers to try and punish summary offences. Appeals from the Royal Court are presided over by the Guernsey Court of Appeals. The ultimate court of appeals is the Judicial Committee of the Privy Council. Guernsey also has an Attorney General and a Solicitor General, HM Procureur and HM Comptroller respectively, who serve as legal advisors to the Crown and the States.

The taxation system

19. As a result of a 1948 agreement, Guernsey and Alderney are effectively a single jurisdiction for taxation purposes and Guernsey's income tax legislation² applies directly to Alderney. Guernsey has also express power to legislate for Alderney in the area of exchange of information on tax matters. Therefore, the term "Guernsey" used in the following paragraphs covers Guernsey, Alderney and Herm.

20. Sark is a separate jurisdiction for tax law purposes (including exchange of information) and has no income tax.

21. All individuals who are solely or principally resident and companies which are resident in Guernsey are subject to income tax on their worldwide income wherever such income may arise or accrue (section 5 of the Income Tax Law). As regards individuals, residence in Guernsey is triggered by: (a) presence for 91 days or more in a tax year, or (b) presence for 35 days in that year and for 365 days in the four preceding years (section 3).³

2. The primary legislation governing income tax is the Income Tax (Guernsey) Law, 1975. Jethou, which has a population below 10 individuals, is not covered by the Income Tax Act and this review.
3. There are two subcategories of residents, which are treated alike for income tax purposes: (a) solely resident when the individual is considered resident in Guernsey during the particular year of charge and not resident elsewhere (*i.e.* the individual does not spend 91 days or more in any other place); and (b) principally resident when the individual is present in Guernsey for 182 days or more in a tax year, or is present for 91 days in that year and for at least 730 days in the four preceding years, or takes up a permanent residence in Guernsey, in addition to meeting the definition of resident and being solely or principally resident in Guernsey in the following year of charge). There is a separate category of residence status when an individual is considered resident but not solely or principally resident in Guernsey. In general, an individual who is resident but not solely or principally resident in Guernsey is chargeable on his worldwide income

22. As to companies, residence for tax purposes in Guernsey is determined on the basis of: (a) shareholder voting control; or (b) incorporation, when the company has not been granted an exemption from tax⁴ for the year of charge (section 4). Non-resident individuals and companies are subject to limited taxation in respect of their Guernsey-source income (including income derived through a permanent establishment therein) other than bank deposit interest. Persons trading or exercising a profession or business in Guernsey in a partnership are taxed on their separate shares of the partnership income.

23. Up until 2007, companies and individuals who are regarded as residents in Guernsey paid a flat tax rate of 20%. Since 1 January 2008, individuals have continued to pay the 20% income tax while companies have moved into a "zero-ten" corporate tax system, with the company standard tax on income from business, offices, employments, and other sources at 0%; the company intermediate rate, which covers certain income from banking business, at 10% (and from 1 January 2013 has been extended to also include certain income from fiduciary and domestic insurance business); and the company higher rate including income from trading activities regulated by the Office of the Director General of Utility Regulation and income from the ownership of lands and buildings at 20%.

24. There are no taxes chargeable upon capital wealth (such as Capital Gains Tax, Inheritance Tax or Gift Tax) in Guernsey. However, there are a number of forms of indirect taxation, such as duties upon alcohol, tobacco and petroleum spirit. There are no general sales, purchases or Value Added Taxes levied.

The regulatory framework (including the financial sector)

25. Guernsey's regulatory legislation for financial services does not automatically apply either to Alderney or Sark. In order for the civil legislation to be binding throughout the Bailiwick, that legislation must be approved by all three legislatures and then receive Royal sanction.⁵

during the year of charge, unless, within a period of two years immediately after the end of any year of charge commencing after 2012, he elects to pay tax on his Guernsey source income, other than bank interest (subject to a minimum standard charge of GBP 27 500).

4. Under section 40A and the Income Tax (Exempt Bodies) Ordinance of 1989 (Schedules 1 and 2). Since 2008, this exemption has only been available to public collective investment schemes.
5. The criminal justice legislation only has to be approved by the States of Deliberation and receive Royal Sanction to be applicable Bailiwick-wide.

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26. The financial services legislation (including AML/CFT legislation) confers functions on the GFSC which may exercise its legal powers equally in Guernsey, Alderney and Sark due to the fact that the legislation has been approved by all the three legislatures. The GFSC, as the main regulatory authority for the financial sector, is involved in matters concerning banking, insurance, investment, fiduciary business, and other services and administers the related laws. The Guernsey banking sector has been through a period of consolidation and restructuring over the past decade, which has seen the number of licensees fall. Currently, there are 32 licensed banks in the Bailiwick of Guernsey – most with head offices either in the United Kingdom or Switzerland. These are regulated and licensed by the GFSC.

27. Guernsey's fund sector has experienced eight consecutive quarters of growth leading into 2012, with the private equity and financial sector seeing particularly strong growth. The Guernsey fund sector remains popular for alternative investment funds including private equity funds, venture capital funds, property funds and funds of hedge funds, particularly where there is a demand to access capital markets. Guernsey has capitalised on supplementing business sourced from the traditional introducer centres of the UK and Europe with new streams from emerging markets such as China, India and Russia. On 30 June 2012, there were 658 institutions licensed to carry on investment business, comprising administrators/managers and custodians/trustees of collective investment funds, stock brokers, discretionary and non-discretionary asset managers, investment advisers and one stock exchange. As at that date, there were 240 authorised or registered open-ended collective investment schemes (of which 183 were umbrella or multi-class schemes resulting in a total 1 541 pools of assets) and 621 closed-ended investment schemes (of which 77 were umbrella schemes resulting in a total of 1 349 pools of assets), with total assets amounting to GBP 270.8 billion.

28. The insurance sector can be broadly divided into two sections: (i) the domestic sector, which includes local insurers, overseas insurers, recognised insurers, and intermediaries who advise on or arrange contracts of insurance in or from within Guernsey; and (ii) the international sector, which includes captive insurers, commercial insurers and life assurance companies who arrange contracts of insurance from within Guernsey, covering international risks.

29. Guernsey trusts are governed by Guernsey customary law (which comprises elements of English common law and Norman customary law). The main authoritative document, the Trusts (Guernsey) Law, 2007, and before that the Trusts (Guernsey) Law, 1989, were codifications of the Guernsey customary law and contain provisions which are identical in many respects to the English common law. The 2007 Law applies to Guernsey only. Alderney and Herm do not have trusts legislation, thus it is only possible to set up trusts therein under customary law.

Exchange of information for tax purposes

30. As of November 2012, Guernsey is signatory to 38 Tax Information Exchange Agreements (TIEAs). It is also a signatory to three Double Tax Conventions (DTCs), two of which contain EOI articles that do not meet the international standards (there are both a DTC and TIEA with the United Kingdom, the latter of which does meet the standards; a new DTC was also being negotiated with Jersey). The framework for the exchange of information for tax purposes is overseen by Guernsey's Director of Income Tax, who is Guernsey's competent authority for EOI purposes.

31. A complete list of the TIEAs and DTCs which have been concluded by Guernsey are set out in Annex 2, including their dates of signature and entry into force. A complete list of all the legislation and regulations relevant to the exchange of information, as well as non-binding guidance texts, is set out in Annex 3.

32. Since 2005, Guernsey has agreed to implement measures equivalent to those contained in the EU Directive on the Taxation of Savings Income (2003/48/EC). As a result, Guernsey has entered into reciprocal bilateral agreements with each EU Member State.

33. During the three year period under review (2009 through 2011), Guernsey received 32 requests for information from 8 different jurisdictions, with a rapid increase, from 1 request in 2009, to 9 in 2010 and 22 in 2011. Subsequently, Guernsey received 25 requests in 2012. The United Kingdom is Guernsey's main exchange of information partner, followed by France, Sweden and the Netherlands.

Sark, a jurisdiction independent from Guernsey for tax matters

34. Sark is the smallest of the self-governing Crown Dependencies which make up the Bailiwick of Guernsey. Sark has an area of 5.44 km² and a total resident population of approximately 600. Sark's economy depends primarily on tourism and to a lesser extent agriculture and fishing. As a result of its location, its historic ban on cars and the fact that there is no public lighting, Sark was designated in 2011 as the first Dark Sky Island in the world by the International Dark-Sky Association.

35. As noted above, Sark is subject to Guernsey's regime for the regulation of the finance industry by the GFSC and to the Bailiwick's AML/CFT regime. Prior to the introduction of the AML/CFT framework in 2000, some Sark residents engaged in offshore company directorship and trusteeship on a large scale. With the introduction of the AML/CFT regime, these activities have been replaced with small scale service provider activities, with the majority of fiduciary licensees surrendering their licences. Currently, the

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regulatory framework for trust and company service providers ("fiduciaries"), banks, insurance companies and investment business is the same in Sark as applies in Guernsey and the GSFC has oversight of, and responsibility for, licensing banks, insurers, investment managers and fiduciaries across the whole Bailiwick. In 2012, there were only two full fiduciary licensees and two personal fiduciary licensees based in Sark, holding between them 24 appointments as directors of companies formed under the laws of other jurisdictions or as trustees of trusts.

36. Sark has its own set of laws based on Norman law and its own parliament, the Chief Pleas. It is a self-governing jurisdiction for all civil purposes, including tax purposes (and exchange of information) and it has no income tax. Guernsey has no power to represent Sark on the international stage and the TIEAs concluded by Guernsey do not apply to Sark. In addition, the powers given to Guernsey's competent authorities to compel the production of information cannot be enforced in relation to persons in Sark. However, the Guernsey competent authority has the power to access information in relation to a Sark individual or relevant entity which is in the possession or control of a person in Guernsey.

37. As concerns the availability of ownership and identity information, Sark has no company law and thus no companies are registered or incorporated in Sark. Any company claiming to be registered or incorporated in Sark would thus be giving false information. In addition, there is no partnership or trust legislation in Sark, thus it is only possible to set up partnerships and trusts therein under customary law. The regulatory requirements on record keeping as well as the AML/CFT regime overseen by the GFSC are applicable throughout the Bailiwick, including the two full fiduciary licensees and two personal fiduciary licensees currently established in Sark. Sark has no banks – branches of two banks, which operate in Guernsey, have sub-branches established in Sark. Guernsey's competent authority may obtain banking information, relating to the Sark sub-branches through the relevant branch in Guernsey.

38. In addition, under Guernsey's criminal justice framework, which extends across the Bailiwick, Guernsey is able to provide assistance in relation to Sark matters under legislation such as the Criminal Justice (Fraud Investigations) (Bailiwick of Guernsey) Law, 1991, the Proceeds of Crime (Bailiwick of Guernsey) Law, 1999 and the Criminal Justice (International Cooperation) (Bailiwick of Guernsey) Law, 2001. Guernsey can exchange information in criminal matters, including tax matters, without the need for a treaty, through the Attorney General's Office.

39. Guernsey received two EOI requests, under TIEAs, in 2012 relating to Sark, one of which related to a foreign company that listed an address in Sark, and the other relating to a bank account at a bank branch in Sark. In

the first instance, Guernsey's competent authority was able to confirm for the requesting party that the company was not registered or incorporated in Sark (as it is not possible to do so, on the basis that there is no company law or registry in Sark). In the second instance, Guernsey's competent authority provided the information requested with respect to the bank account (which was obtained from the Guernsey branch).

40. This report is not an assessment of the Bailiwick of Guernsey as a whole, as it does not cover Sark. This report, therefore, covers in detail the other two entities of the Bailiwick, *i.e.* Guernsey (which includes the island of Herm) and Alderney.

Recent developments

41. Some projects, announced at the time of the Phase I review, have materialised in new laws, or are still at the project stage. The States of Guernsey resolved to introduce private foundations in March 2012. The Foundations (Guernsey) Law, 2012 was approved by the States of Deliberation (the Island's parliament) in July 2012 and came into force on 8 January 2013. Pursuant to the legislation, foundations in Guernsey are registered with the Guernsey Registrar. Moreover, the formation of Guernsey foundations is restricted to licensed fiduciaries, and as such are regulated by the GFSC, which will ensure compliance with AML/CFT obligations as well as the regulatory oversight of the administrators of foundations.

42. Guernsey's parliament had approved a proposal to draft amendments to the Limited Partnerships (Guernsey) Law, 1995 in 2010. The primary changes include: transferring administration of the Register from HM Greffier⁶ to the Registrar of Companies; enabling an online register of LPs; clarifying the role of Limited Partners; and, introducing Protected Cell Limited Partnerships and allowing migrations, conversions and amalgamation. Draft legislation has been released for public consultation and the legislation will be presented to the States of Deliberation in the 2nd quarter of 2013.

43. Amendments to the Companies (Alderney) law 1994 received Royal Assent in October 2012 and have effect from 1 January 2013, which introduce a resident agent requirement synonymous with Guernsey's.⁷ The Policy Council agreed to lay before the States of Deliberation in November 2012 a

6. Her Majesty's Greffier is the Clerk of the Royal and Magistrate's Courts, Registrar of the Guernsey Court of Appeal and Clerk and Registrar of the States.
7. A resident agent is a an individual, resident in Guernsey, who is a director of the company, or a corporate services provider whose duty is to take reasonable steps to ascertain the identity of the persons who are the beneficial owners of members' interests in that company.

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proposal to repeal the Control of Borrowing Ordinance. Upon approval, the current system of using the Control of Borrowing Ordinance to provide oversight of beneficial ownership at the company formation stage will cease.

44. The States of Deliberation resolved to repeal section 75(CA) of the Income Tax (Guernsey) Law 1975, as amended, before the Ordinance bringing that section of the Law into effect was registered. Had this section not been repealed it would have introduced a new procedure under which the Guernsey competent authority would have provided a member of the Guernsey Tax Tribunal with evidence to support his conclusion that a request for the exchange of information, made under an international agreement, satisfied the terms of that agreement, in order that the competent authority could then invoke the information gathering powers within the Income Tax Law.

45. Since its Phase I review in 2010, Guernsey has significantly expanded its network of exchange of information instruments. It signed an additional 21 EOI agreements, including 20 TIEAs, and a DTC with Malta, and brought an additional 17 agreements into force.

Annex 1: Jurisdiction's Response to the Review Report⁵⁹

Guernsey is pleased that, after completion of its Phase 1 and 2 reviews, the efforts of the States of Guernsey (the Guernsey government) to demonstrate its practical commitment to the principles of transparency and exchange of information in tax matters, to which it made a political commitment in 2002, have been recognised, in that all elements have been found to be in place.

Guernsey has now signed 40 TIEAs and 5 DTCs, all of which meet the international standards, and continues to be active in that it currently has 19 further agreements completed and awaiting signature and an additional 13 agreements under various stages of discussion (the majority near completion). It also remains open to approaches from other jurisdictions to consider new requests for negotiation of agreements. This demonstrates Guernsey's commitment to continue to negotiate agreements with all relevant partners, in accordance with the C2 recommendation, and Guernsey is already taking the internal steps required for entry into force of the EOI agreements which it has recently signed (including the revised DTC signed with Jersey in January 2013, as referred to in the C1 recommendation).

Similarly, Guernsey will continue to ensure that the administrative regime it has introduced, to enable effective EOI, is not negatively affected by recent changes in legislation (for example, in relation to the monitoring recommendation under A2, in connection with implementation and enforcement of the 2012 amendment to the Income Tax Record Keeping Regulations).

The issue of the number of times that Guernsey has found it necessary to refer back to its EOI partners before it has been in a position to execute a number of requests that it has received (as detailed in paragraphs 364 to 368 of the report) came as a surprise to Guernsey, insofar as the concern may have been that such requests for clarification may have frustrated the effective exchange of information. Guernsey is happy, however, that the report reflects the fact that in all cases where Guernsey requested clarification

59. This Annex presents the jurisdiction's response to the review report and shall not be deemed to represent the Global Forum's views.

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the request was justified, and in fact facilitated the effective exchange of information, by ensuring our EOI partners received the information which was relevant to their investigation. Whilst Guernsey agrees with the sentiment expressed in the report, that this should improve, in any event, with the passage of time, as relationships with EOI partners mature, inevitably this will be dependent on the quality of requests also improving. Guernsey does not believe it is alone in facing this issue of having to seek clarification as a result of poor quality or badly phrased requests and fully supports the need to address this matter. We are therefore glad to see this issue is to be an agenda item in the upcoming Competent Authority meeting, taking place in the Netherlands, in May 2013.

Guernsey does not hold, and never has held, the view that the signing and entry into force of a TIEA or DTC is the completion of a relationship with another jurisdiction, but rather it is the beginning, and one to which Guernsey remains committed to enhancing. Guernsey seeks, and will continue to seek, to meet with the competent authorities of its EOI partners, either multilaterally during events such as the Global Forum meetings, and indeed the Competent Authority meeting (which was created after Guernsey's suggestion during the Global Forum meeting in Bermuda in 2011) or by holding bilateral meetings, in which Guernsey provides in depth presentations covering the background of Guernsey, its tax system and its EOI practices. Guernsey has also provided detailed information, which it hopes will be of assistance to its EOI partners, on the Global Forum's EOI Portal website, including an outline of the type of questions which EOI partners may wish to include in requests, in different scenarios. This is intended to aid our EOI partners in phrasing requests, including in relation to subjects with which the partner may not be wholly familiar (for example, for some jurisdictions, trusts).

In addition, in connection with the legislation relating to foundations, which only entered into force in January 2013, Guernsey will take the necessary steps to bring into existence the relevant Regulations (relating to annual filing etc requirements) timeously (as referred to in paragraph 161). In relation to paragraph 157, Guernsey would like to clarify that, currently, assets of a foundation will pass to the Crown if a foundation is terminated (assuming arrangements have not already been made for disposal of the assets). The consequences of strike off will be dealt with in the regulations referred to above.

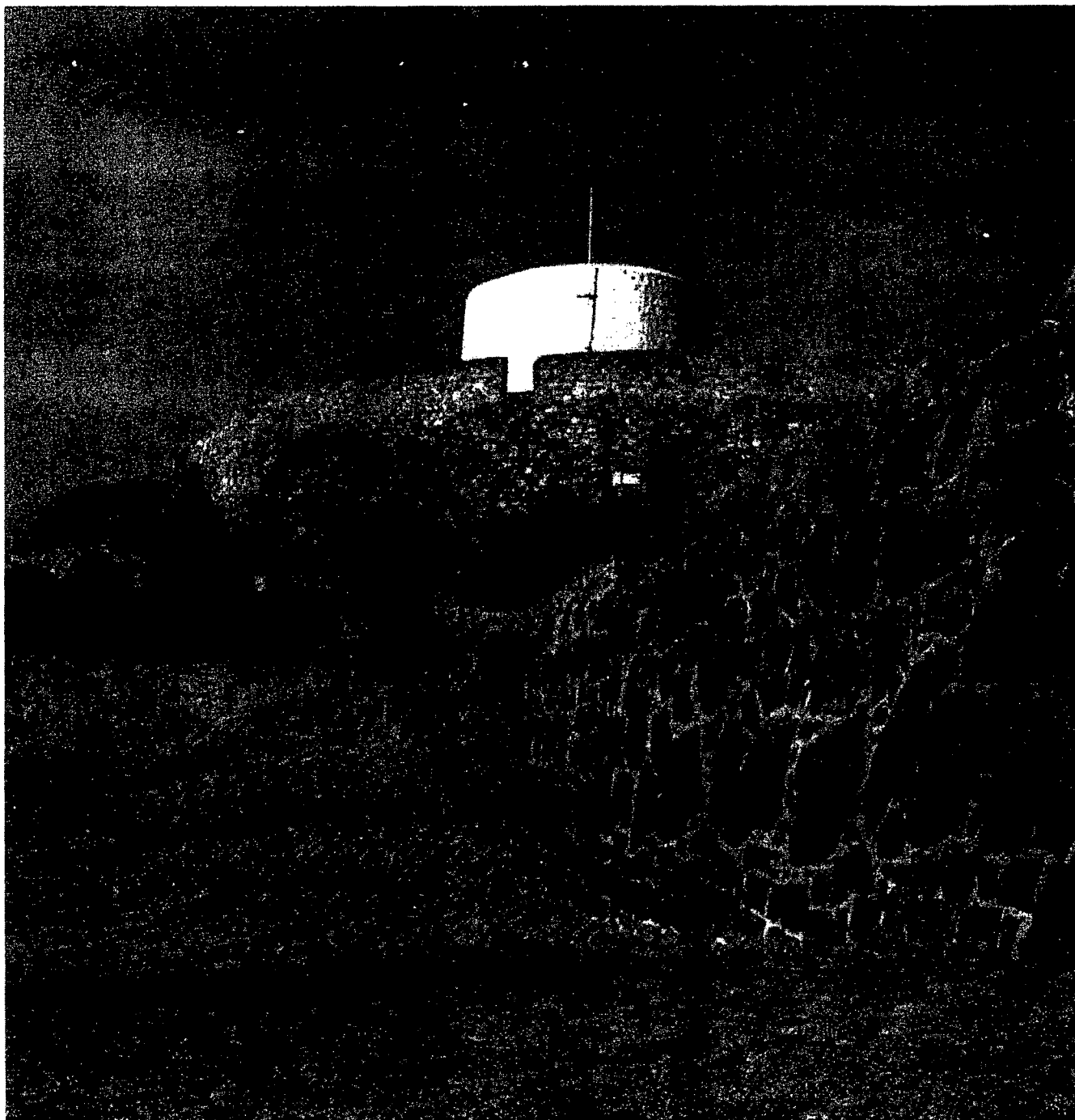
Guernsey will continue to monitor the position regarding trustees acting for a trust not by way of business, as detailed in paragraph 144 of the report, but agrees with the findings in the report that only a very narrow class of persons would not be covered by the Fiduciary Law, and those who were not covered would be acting for someone they knew (on the basis that they would not be receiving any reward for the services provided) and would therefore

hold the required information. In addition, such persons would now also be covered by the requirements of the amendment to the Income Tax Record Keeping Regulations, in relation to accounting information. Guernsey is also able to confirm that, of the total of 64 requests received to date, this issue has never arisen in practice.

Concerning the C3 recommendation, Guernsey believes that no breaches of confidentiality, of the type to which the report refers, have taken place in relation to the requests that it had received, and which were considered in the Phase 2 review (indeed the report itself confirms that no issues in practice were discovered to have occurred during the period under review). However, whilst this is presently, therefore, a theoretical situation, discussions have already been initiated internally to examine how the concerns expressed in the report in this regard may be addressed, whilst taking due account of the legitimate rights of persons in Guernsey who may be subject to a notice requiring them to disclose information.

In accordance with paragraph 9, Guernsey will submit a progress report to the PRG, within 12 months of the date that the report is adopted.

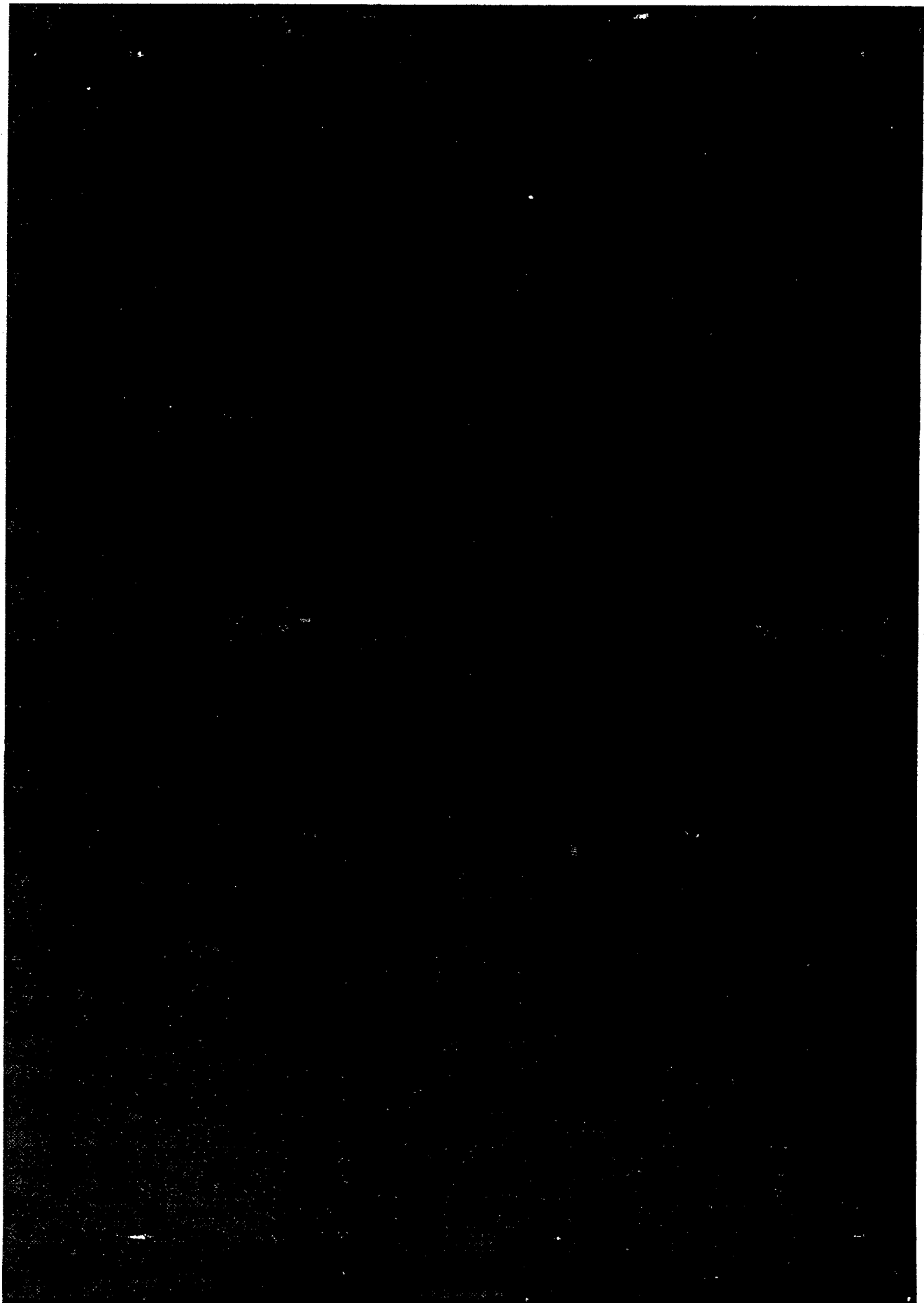
Finally, Guernsey thanks the Assessment Team for its assistance in compiling a report that reflects the legal and practical framework which is in place in Guernsey for ensuring effective EOI.



Guernsey Financial
Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2011





Guernsey Financial
Services Commission

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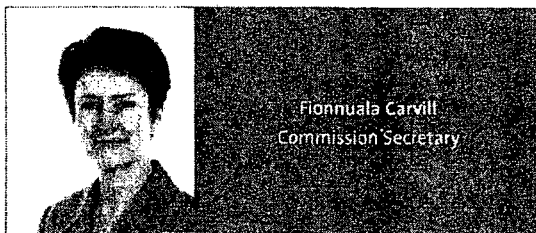
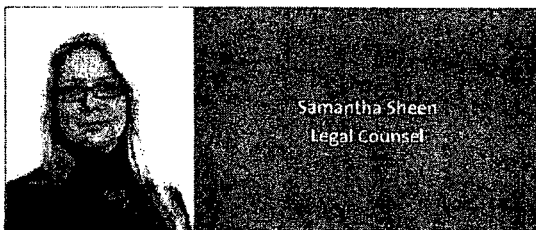
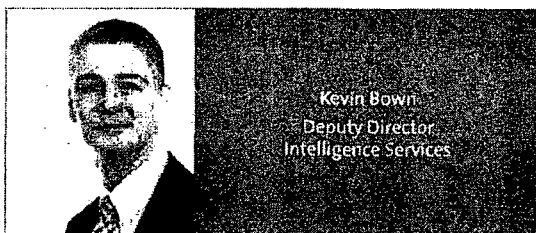
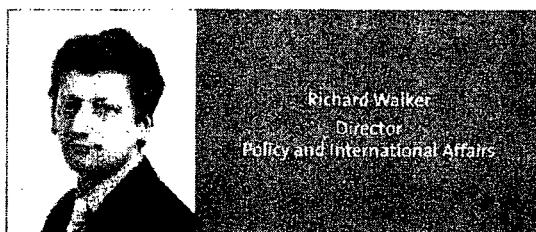
Appendix

1. Functions, Structure and Corporate Governance and other Control Systems of the Commission	66
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This report, including the financial statements as required by section 8 of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987, as amended (the Commission Law), is made in pursuance of section 6 of the Commission Law to the States Policy Council and submitted by the Chief Minister for consideration by the States of Guernsey.

Note: Throughout this report the Guernsey Financial Services Commission is referred to as "the Commission". The Chairman and other members are referred to collectively as "the Commissioners".

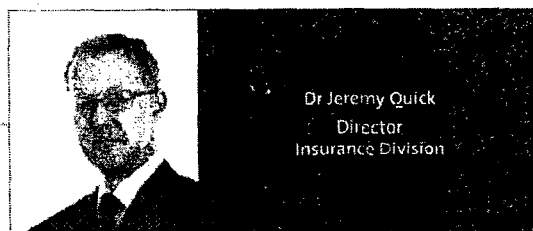
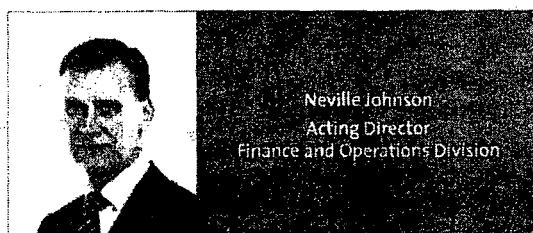
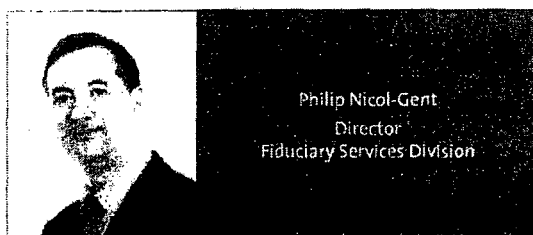
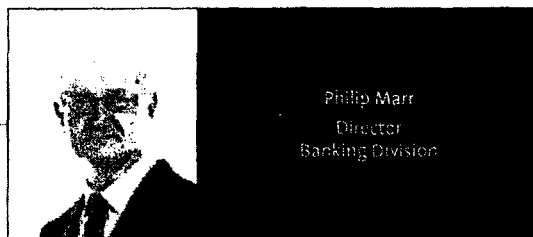
STRUCTURE OF THE COMMISSION



COMMISSIONERS



DIRECTOR GENERAL'S DIVISION



COMMISSIONERS



Cees Schrauwiers
Chairman of the Commission

Cees Schrauwiers was appointed as a Commissioner in July 2008. He is a Dutch citizen and has spent most of his career in London with Commercial Union ("CU"). Mergers with General Accident and Norwich Union resulted in the creation of Aviva plc. Cees has occupied a number of positions in the insurance industry, including Managing Director of CU UK and Managing Director of CGU Insurance. Following the mergers he was appointed Managing Director of Aviva International, gaining valuable experience in dealing with regulators across the globe, including North America. Cees is currently Chairman of DriveAssist Holdings Limited, a claims management company, Senior Independent Director of Brit Insurance Holdings plc and Senior Independent Director of Record plc, one of the world's largest currency managers. He lives with his family near London.



Susie Farnon FCA
Vice-Chairman of the Commission

Susie Farnon was appointed as a Commissioner in February 2006. She was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of the Guernsey Audit Commission and the Guernsey Public Accounts Committee. She is also director of a number of private and listed companies.



Lord Flight MA (Cantab) MBA, FRSA
Commissioner

Lord Flight was appointed as a Commissioner in 2005. He was the Conservative Member of Parliament for Arundel and South Downs from 1997 to 2005, during which time he was Shadow Economic Secretary, Paymaster General and Chief Secretary to the Treasury. From 1999 to 2004 he had Shadow Treasury responsibilities for the Finance Acts, the financial services industry, financial regulations and pensions. He has worked for over 40 years in the financial services industry, starting his career at Rothschilds. In the second half of the 1970s he worked for HSBC's merchant bank in Hong Kong and India. In 1979 he joined Guinness Mahon and established what became Guinness Flight Global Asset Management, of which he was joint Managing Director until it was acquired by Investec in 1998. He formed, and is Chairman of, Flight & Partners, which is the manager of the Flight & Partners Recovery Fund, and is currently a director of Investec Asset Management Limited, Metrobank plc, Arden Partners and a number of other companies and investment funds.



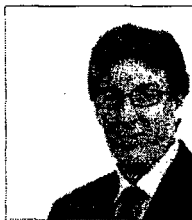
**Alex Rodger MCIBS
Commissioner**

Alex Rodger was appointed as a Commissioner in February 2008. He spent over 40 years with the Royal Bank of Scotland ("RBS") Group. Prior to moving to Guernsey in 1989 as Island Director, he occupied senior posts in relationship management and credit control in London and New York. He was executive director of RBS International from its formation in 1996 and was appointed Managing Director of RBS International Securities Services Group in April 2002. Later that year his responsibilities were increased to that of Managing Director of RBS International Corporate Banking Division with responsibility for corporate banking operations in each of Jersey, Guernsey, the Isle of Man and Gibraltar. He led the sale of RBS International's Securities Services business to BNP Paribas in June 2007. He was also Chairman of RBS International Employees Pension Trust. Alex Rodger is the non-executive Chairman of advocates Collas Crill.



**Richard Hobbs MCIPD
Commissioner**

Richard Hobbs was appointed as a Commissioner in January 2012. His first career was in the UK Civil Service where he concentrated on a variety of consumer protection and European issues. Latterly, he was a director of the Department of Trade and Industry's Insurance Division where he was responsible for overall supervision of the Lloyd's insurance market during its reconstruction in the mid-1990s. He has been Head of Life and Pensions at the Association of British Insurers, and for the past decade has been a consultant advising a wide range of clients in financial services on regulatory, risk and governance issues. He is also chairman of Faber Limited, a wholesale insurance broker, and a non-executive director of Barbican Managing Agency Limited, a Lloyd's managing agent.



**Bob Moore
Commissioner**

Bob Moore was appointed as a Commissioner in February 2012. He has spent over 30 years in the financial services industry in Guernsey and internationally. From 1979 to 1997, he held positions in international banking and international private banking with the Lloyds Bank/Lloyds TSB Group in South America, the United States ("USA"), the United Kingdom ("UK") and Luxembourg. These included responsibility for Lloyds' international private banking operations in New York and in Luxembourg. From 1997 to 2011, he was jurisdictional Managing Director with responsibility for the Butterfield Group's operations in Guernsey, including banking, investment management, custody and fiduciary services. In June 2011, he was appointed to the position of Executive Vice President and Head of Group Trust for the Butterfield Group. He has also been a director of a number of other Guernsey banks and investment funds.

CHAIRMAN'S STATEMENT

This is my first statement as the new Chairman of the Commission. I am therefore seeking to provide you with an overview of the plans of the Commission for the near future.

I have taken over from Peter Harwood, to whom we all owe a vote of thanks for the way he has guided the Commission over the last six years, during a difficult period. I also would like to thank David Mallett, who served the Commission as its Vice Chairman over the last seven years, who has also retired.

I have no great expectations that the business climate will improve substantially over the next couple of years. Investors continue to struggle to generate real returns on their investments and governments are trying to resuscitate their economies still suffering from the consequences of living above their means. In order to prepare better for the expected difficult times ahead, the Commission announced last year that it would undertake a review and evaluation of the way it is organised and conducts its business. Ernst & Young LLP was engaged to carry out this assignment. The purpose of the Review was to assess the current performance of the Commission and to assist in the design of an organisation that best prepares us for the future we are likely to face. The Review was successfully completed in November and the recommendations were discussed with the States of Guernsey ("the States") and accepted by the Commission.

The main recommendations are:

- A financial services strategy is essential for Guernsey. It should be informed by economic data provided by government, opportunities informed by industry and regulatory consequences informed by the Commission. Government should be responsible for strategy, the Commission for implementation of regulatory strategy.
- Responsibility for regulation should rest with a single government department with clearly defined responsibilities and reporting mechanisms and safeguards in place to ensure that government cannot interfere in the day-to-day business of regulation.
- The Commission creates a unified and centralised regulatory process to gain organisational and operational efficiencies.
- A structured and transparent supervisory programme, adopting a consistent risk-based approach across the Commission, should be implemented to bring greater consistency.
- The electronic submission of data should be prioritised to increase the operational effectiveness of the Commission. Licensees should be encouraged to submit data in electronic form wherever possible and provide their own analysis of significant data movements to facilitate the Commission review.

The Commission has retained Ernst & Young LLP to help with the project management aspects of the implementation of the recommendations. It is however clear to us that it will be the staff who will be required to execute the follow-up of the recommendations. We intend, from time to time, to keep stakeholders abreast of the progress we are making.

The Commission is fully aware of the importance of the financial services industry to Guernsey and it is working closely with the States to make sure that the island continues to play a successful role in the finance industry of the early 21st century. To assist in this task for the Commission, the Policy Council has provided the Commission with the following principles, which I summarise as follows:

The Commission:

- Has operational independence.
- Should maintain and enhance Guernsey's reputation and prospects by applying and enforcing a strong, internationally respected, regulatory regime.
- Should adopt and apply international standards.
- Should at all times bear in mind the importance of the financial services sector to Guernsey.

The ever-increasing level of activity at the Commission and for licensees demands an improvement in the way the Commission communicates with its stakeholders. Commissioners, therefore, intend to step up their communications plan with the relevant representative bodies on the island. To assist all parties, the Commission will be introducing service level agreements ("SLAs") later in the year and intends to provide regular updates on its performance.

The increasing cost of regulation is a concern to all of us and the Commission intends to keep any cost increases to a minimum, whilst meeting its objectives. The fee increases for 2012 were the lowest for some time. The implementation of the recommendations in the Ernst & Young LLP review will assist us in achieving that aim.

The Director General and the divisional Directors summarise the "business as usual" activities of the Commission, but I would like to highlight the time and energy spent by the Commission on taking part in and staying in touch with the numerous international regulatory bodies. The new Basel III and Solvency II requirements are demanding the full attention of the Commission even though Guernsey is outside the European Union. We need to

keep abreast of the developments on our doorstep. Of concern to the Commission is the ongoing uncertainty surrounding the euro and the membership of the Eurozone. The stresses and strains within the zone are ever increasing, in particular as a result of the divergence in the development of unit wage costs between members of the Eurozone.

The Commission maintains an active dialogue with departments of the States, the Policy Council and the Department of Commerce and Employment. The Commission also meets periodically with the Fiscal and Economic Policy Group at both Commissioner and executive level.

As already expressed, the effort required from the Commission is substantial and I would like to thank the staff and the Directors of the Commission for their unrelenting endeavour and thank my fellow Commissioners, who have seen their workload increase substantially over the period. I want to use this opportunity to welcome Richard Hobbs and Bob Moore as the newly appointed Commissioners. This brings the Commission close to its full strength and will allow us to deal effectively with our tasks over the next couple of years.

Cees Schrauwers, Chairman

DIRECTOR GENERAL'S STATEMENT

In my statement accompanying the last Annual Report, I suggested that 2010 might be characterised as the Commission in transition. I have no doubt that 2011 and 2012 will come to be identified as the Commission in transformation. I can assert this with cautious confidence now that the Review carried out by Ernst & Young LLP, conducted during 2011, and delivered to the Commission in November, has been endorsed as to its recommendations, and is now in the process of detailed planning and implementation.

It is right to stress that the Review was not about finding fault, but making the Commission fitter for the purpose of financial services regulation and supervision in the Bailiwick in ever-changing, and almost invariably more difficult, circumstances. Of course, those consulted as part of the Review found matters to criticise, but as Ernst & Young LLP make clear, the Commission is widely respected and valued, and believed to be of credit to Guernsey. For that state of affairs I have to thank my preceding Directors General, all the Commissioners who have served the institution since its establishment on 1 February 1988, besides – and particularly – our staff, present and past. But in regulatory terms 24 years is a lifetime, sufficient for cultures to become embedded and ways and means to be taken for granted, all of which should be subject to challenge and revision. I welcome the Review, and thank Ernst & Young LLP for the considerable work they have undertaken in delivering sensible, practicable and, crucially, achievable recommendations.

Of the many matters addressed in the Review, the identification of the need for government and industry to maintain an effective and tolerable *modus operandi* is significant. Whilst regulation is inevitably underpinned by such legislative regime as government is predisposed to provide, the dialogue between the States and the Commission to achieve better regulation must be mutually positive and supportive. In this respect the Review's recommendation that there needs to be developed under the aegis of the States a financial services strategy within which the Commission can deliver its regulatory objectives is vital.

As I reported last year, in November 2010 the regulatory objectives of the Commission were restated at the Commission's request and with its agreement by the Policy Council, as much for the purposes of the Review as to provide a continuing context within which the Commission should discharge its functions. However – and as current economic circumstances have highlighted – it is clear that some more formal and broader financial services strategy will need to be prepared, to which the Commission will necessarily have a significant contribution. Since I arrived at the Commission I have encouraged between the Commission and the body politic much greater interaction, both at Commissioner and executive level, and this is already producing beneficial results. Amongst the various recommendations and endorsements of Ernst & Young LLP, a number call for comment and explanation.

To my mind, the most important task is the consolidation and co-ordination of the Commission's legislative and regulatory regimes into one piece. This was first proposed internally some years ago, but was deferred because of the financial crisis and the 2010 International Monetary Fund ("IMF") assessments. Both have reinforced its urgency and importance. Through nobody's fault, the Commission is responsible for regulating and supervising businesses under several distinct laws which have been separately developed and enacted by the States, and which reflect not only the needs and wants at the time of their confection, but also the predilections of those instructing or informing their preparation. The result is a *pot pourri* of primary legislation, directed separately at protection of depositors, i.e. banking (1994), insurance business (2002), insurance managers and intermediaries (2002), investment business (1987) and fiduciary business and company administration (2000). Whilst each has been effective in its own terms in enabling the Commission to discharge its objectives, the differences within and between them, both subtle and obvious, in relation to regulatory and supervisory practices and procedures which should be common across the Commission, make efficient discharge of its functions more difficult. This is no longer acceptable.

It is essential to unify all those legislative and regulatory provisions which should be common to all Divisions within the Commission, and this I have no doubt will be conducive to a much more effective and responsive Commission, besides providing a more accessible and convenient point of call for those who need to read and understand the regimes by which they are bound. The opportunity will be taken to amend or supplement the legislation where appropriate or as recommended or required by external assessors and international standards setters. Whilst the purpose of the consolidation goes more widely, if the only result is the simplification and clarification of the law, then it is to be welcomed. In this the Commission will be working closely with the relevant authorities, particularly the legislative drafting team at St James Chambers. Separately managed, but arising out of the same philosophy, is a review of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987, which presently prescribes for the Commission rather than the sectors regulated and supervised by it. The product will necessarily reflect the greater interaction to which I refer above between the Commission and government.

Another significant project which the Commission has come to recognise is intimately linked with the implementation of the Review's recommendations is "extranet". The desirability – some would say essentiality – of facilitating and improving communication and management of data between regulated businesses and the Commission is obvious, but its purpose goes wider. The Commission is the recipient of vast quantities of

information from licensees, which primarily informs our work with respect to each licensee. This, in some respects, is consolidated for divisional purposes. But within that information, and available from other information which should be sought but presently is not, there lies data which, properly deployed, would be of benefit not only to the Commission but also to Guernsey's government for economic and other purposes. I must stress that there can be no question of disclosing confidential information concerning particular licensees: to this, government is not entitled, but Commission data, efficiently collated, suitably anonymised and analysed, and appropriately disclosed, should provide a valuable tool. Furthermore, the internal management of data is under review for improvement, as Ernst & Young LLP have recommended.

Following the Review the planning for the extranet project underwent significant development, in part to reflect the new methodologies which have been urged upon the Commission by Ernst & Young LLP in the delivery of projects, particularly to determine the core issues of costs and benefits. Prediction of costs is always hazardous, and determination of benefits usually less so, and it is never satisfactory to evaluate unquantified non-financial benefits against (usually unpredictable) quantitative costs. However scoped, however scaled and however delivered, extranet will not come cheap.

Of the Review's other recommendations, the development of a pan-divisional anti-money laundering/countering the financing of terrorism ("AML/CFT") unit is the most significant, and is particularly welcome. The Review identified dissatisfaction amongst industry with the way in which the Commission addressed aspects of AML/CFT development. As the importance of this area of the Commission's work increases, there must be effective communication with those affected by AML/CFT developments, and this also because it seems clear that the Commission will be required to assume, and so industry will be required to address, developments in the combating of other aspects of financial crime – including, in particular, bribery and corruption. More generally the criminal law enforcement aspects of the Commission's functions will inevitably increase. So the creation now of a unit specifically devoted to becoming the Commission's centre of excellence for AML/CFT purposes, and which will enable it, as and when required, to address emerging financial crime issues, is timely.

The Commission continues to seek ways to contain costs. Since 2009, it has been largely successful in doing so. However, the one-off cost of the Review had to be borne in 2011, and this was not insignificant in the context of the Commission's overall financial results which indicate fee income and expenses rising in similar proportions. Salary costs, being the Commission's major expense, rose by less than 1%, though pension costs were substantially higher – the States' review of the Public Sector Pension Scheme, of which the Commission is a member, is awaited, as are initiatives that will help contain its costs. The incongruous results revealed by the two measures for the final salary pension scheme deficit continue to confound many minds, showing a £75 million deficit on the Commission's balance sheet, while a deficit of less than £500,000 was the result of the updated actuarial valuation used triennially for funding purposes. I should stress that the Commission closed the final salary pension scheme to those not

already members in 2008, and instead makes available a defined contribution scheme. Other costs were stable, although legal and professional costs, often associated with enforcement activity and so less predictable, were more volatile. But overall, the Commission has been markedly successful in controlling costs in those areas within its control.

I do not propose to dwell upon the continuing turmoil in world economies and financial markets. Suffice to say that the Commission is acutely conscious of the need to be vigilant, and to take appropriate action to attempt to mitigate the consequences of stress or failure. Eurozone contingency planning has featured much in this process, as has the Commission's contribution to Guernsey's involvement in the future structure of UK banking operation and regulation, principally as a result of the Vickers report. The Commission, being possessed of appropriate knowledge and experience, is well placed to advise the States on stress in financial services which, depending upon the methodology deployed, deliver somewhere between 40% and 70% of Guernsey's gross domestic product.

The Commission remains alert to the need to leave the place and scope of financial services within Guernsey's economy to the States, advised by industry, but, of course, given the significance of financial services, the consequences of regulation almost inevitably bear upon the community at large. Despite what may be believed, the Commission remains ever aware, particularly in these troublous times, of its responsibilities to maintain Guernsey's reputation, both internally and internationally, which is why effective engagement between the Commission, the States and industry is increasingly important.

2012 will be the last year during which the Commission will part fund the GTA University Centre. One result of the Commission's decision to withdraw its grant has been a welcome commitment by the States to continue to support the GTA. Another has been a thorough-going review of the GTA's resources, expenditures, purposes and ambitions. I stress that the Commission remains wholly supportive of the GTA and will continue to advise and assist it as and when appropriate. The Commission is proud of having been the progenitor of the institution that became the GTA, which has made such an outstanding contribution to the provision of education and training in and for the finance sector.

In conclusion I have to express my particular appreciation to Peter Harwood, who retired as the Commission's Chairman at the end of January 2012, for his invaluable support and advice, not only to me personally but to the Commission, and also to David Mallett, our Vice Chairman, whose long experience with the Bank of England and Standard Chartered Bank proved invaluable.

The Commission is nothing without its staff, and whilst regulation is hardly ever popular – let alone appreciated – the financial services sector besides the community at large should extend their thanks to them all for continuing to discharge the burdens of regulation and supervision so ably, efficiently and cheerfully. I am proud of them, and so should be the community.

Nik van Leuven QC, Director General

BANKING DIVISION



The Market

To review supervisory developments in the year 2011 one needs to recall the market and economic context of that year. 2011 was a year of further consolidation in the banking industry but was marked as a year of continuing uncertainty in large part as a result of the unresolved issues in the Eurozone. Those issues and the fact that progress to economic recovery seemed to stall were driven by the need to bail out Greece and the peripheral countries of the Eurozone and the looming doomsday scenario that there might be a breakup of the Eurozone. What we saw was a long-drawn-out process resulting from the failure to arrive at a clear solution, particularly around how much funding was required to stand behind the vulnerable sovereign countries and who would provide it. Debt refinancing, austerity measures and the deepening uncertainty following several ratings agency downgrades of both

sovereign countries and key systemic banks in the Eurozone countries meant that progress to economic recovery gradually ran out of steam in the second half of the year so that at the end of the year there was a widespread feeling that several European countries were on the brink of economic recession.

In the markets interbank lending contracted to a minimum – in effect, bankers did not want to lend to each other – as bankers were concerned by the extent of other banks' exposure to the weaker Eurozone countries. The European Banking Authority continued its stress testing of the major banks in Europe and identified several which needed to raise capital in order to bolster their core Tier One capital base.

International Developments

The principal components of the Basel III initiative were confirmed early in the year and gave a time line for the reinforcement of capital bases by the leading internationally active banks, together with the additional measures, leverage ratios, counter cyclical cushions and the introduction of a global liquidity regime. This included a near-term component, the liquidity coverage ratio and the medium-term more structural liquidity measure, the net stable funding ratio. A key element of the liquidity coverage ratio was that large economically important banks should hold a stock of high-powered liquid assets. This is still a subject of discussion with banking industry representatives. From the lessons learned in the banking crisis there were also issued new definitions of what is acceptable as core capital to be available to support losses. In general terms the quality of capital was being significantly tightened to be either equity or convertible securities which transposed into equity on a trigger event. During the year the Basel Committee also set about reviewing the 25 Core Principles which form the basis for the assessment of effectiveness of regulatory regimes in jurisdictions across the world and against which Guernsey was assessed in 2010.

Parallel to the developments around Basel III, the UK's coalition government took a longer-term view of the lessons to be learned from the banking crisis of 2008 and were proactive as to how to address banking resilience in the UK. The Independent Commission on Banking under the chairmanship of Sir John Vickers made its first preliminary findings in April and subsequently made final recommendations in September. Its conclusions were that it would be beneficial to the UK economy in general and to the UK tax payer in particular, if retail banks could be ring-fenced and formally separated from the riskier investment banking arms of their current business. The ring-fencing attributes were defined, certain criteria were set out and the notion of clear separation and

separate funding was articulated. There was a further implication that in order not to be a potential burden on UK tax payers the ring-fenced entities should be additionally capitalised so that there were built-in safety cushions in those structures. There is continuing debate about the separate funding of the investment banking elements and the industry response addressed both the extra capital needed and the additional cost that will be incurred from funding the investment banks separately.

From the point of view of the Crown Dependencies an issue was identified which related to the definition of the ring-fenced banks which was focused around the provision of banking services in the European Economic Area ("EEA"). However Guernsey, Jersey and the Isle of Man are not in the EEA, which meant that on the face of it there was no option to be part of the prospectively ring-fenced elements. The Crown Dependencies worked together to make representations to HM Treasury that this oversight should be addressed and sent a delegation to meet the UK authorities in December 2011. Following the initial meeting further statistical material was provided to HM Treasury to assist in their assessment of whether the retail elements of UK banks operating in the Crown Dependencies could be included within the ring-fenced banks. HM Treasury is due to put out a consultation document in the first half of 2012 to receive representations from interested parties.

Supervision

Our supervision of licensed banks consciously involved no new initiatives. The 2011 supervisory programme was a reinforcement of our existing tools of Internal Capital Adequacy Assessment Process ("ICAAP") and Supervisory Review and Evaluation Process ("SREP") reviews of subsidiary banks, on-site reviews and thematic reviews across the whole sector and the restart of the annual branch meeting programme.

Attendance at Colleges of Supervisors is now embedded in our supervisory programme. The Division participated in four Colleges in 2011 in respect of banks from the UK, Netherlands and Cyprus. These help us to understand better the strategy and capital and liquidity strength of parent banks as well as developing our knowledge of intragroup dependencies. Bilateral meetings with home supervisors remain an important feature of our supervision: meetings were organised in 2011 with banking supervisors from the UK, Switzerland, Bermuda, Jersey and the Isle of Man.

Sector Developments (Local)

There was some unfinished business for the subsidiaries of UK banks in respect of the implementation of the UK's robust liquidity regime which had challenged those banks which relied to a heavy extent on upstreaming funds to their parent. The board of Yorkshire Guernsey Limited decided to exit from the Guernsey market because of the adverse impact on them of upstreaming funds to the UK which could only be used to fund the business if they were at maturities beyond 90 days. In May of 2011 the UK authorities, that is, the Bank of England and the Financial Services Authority ("FSA"), jointly issued a significant new document on their approach to the supervision of banks going forward. This effectively changed the ground rules to remove the expectation that all banks and building societies would be bailed out or rescued by the UK tax payer as a matter of course. That document identified certain types of banks which were more likely to be considered for exceptional government support but made the general point that there should be no expectation of support. Only those large banks which were regarded as systemic and which were critical to the support of the UK economy and the UK payments system were singled out for classification in the category most likely to be supported.

The board of Yorkshire Guernsey Limited took the decision in July to organise an orderly wind-down and repayment of depositors of the Guernsey bank to be effected by mid-December 2011. Yorkshire Guernsey Limited surrendered its licence in the final days of the year. Clearly that leaves retail depositors in Guernsey faced with a reduction in the choice of outlets but it was evident that the majority of the local deposits repaid were placed with other banks in the Bailiwick.

After many years of activity in Guernsey, the Hong Kong-based joint venture DAH Hambros Limited closed for business in the third quarter: its original use for accommodating securities transactions and specific mortgage lending had fallen away. The bank had not been able to generate sufficient private banking clients from its Asian network to sustain it for the future and the joint venture partners took the view that it was no longer viable.

The name of Close Bank (Guernsey) Limited was lost to the Bailiwick in September. This followed the acquisition of the Close Offshore Group businesses from the Close Brothers Group after the acquisition of the bank by Kleinwort Benson Channel Islands Limited ("KBCI") following their agreed acquisition of several Close companies in Guernsey, Jersey and the Isle of Man. KBCI spent much of the year integrating those former Close offshore businesses into the new KBCI business. Whilst a licence was lost, the business has remained in the Bailiwick and the other islands and the majority of jobs were retained to provide the staffing for the combined entity going forward. After the legal acquisition was completed in the first half of 2011 the Kleinwort's executive team began the challenging task of integrating the two sets of business teams and achieving the synergies that they had identified at the time of making their bid. The Commission continues to work closely with KBCI as it seeks to implement its integration strategy. During the year, the Swiss private banking company Bank Sarasin (CI) Limited surrendered its licence as a subsidiary but effectively transferred its business to a recently opened Guernsey branch of its parent bank, Bank Sarasin and Company Limited.

Anti-Money Laundering/Countering the Financing of Terrorism ("AML/CFT")

The Division continued its programme of AML/CFT on-site review visits assessing the compliance of eight banks with the Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing ("AML/CFT Handbook"). There were still some banks catching up with the requirements of the AML/CFT Handbook, particularly around existing customers and customer risk profiling. Encouragingly, we did visit several banks where, at the time of the visit and on the basis of the files reviewed, we assessed that there were no contraventions of the AML/CFT Handbook. Our practice evolved over the year so that if there were no contraventions but we wished to make some suggestions about improvements or refinements of practice, these would be delivered orally in the exit meeting. In a few cases these points were carried forward to a prudential letter which outlined the areas, principally risk profiling where the bank personnel could employ a "smarter" approach to the identification of risk.

One of the thematic on-site reviews conducted during the year – on outsourcing and managing outsourcing risk – was also relevant to AML/CFT procedures and practice. We accept that outsourcing is a fundamental feature of the economic business model employed

in Guernsey and the other Crown Dependencies because of the access it allows to larger and deeper pools of expertise and resources (usually in other parts of the group) and leads potentially to economies of scale. Nevertheless, responsibility for complying with Guernsey legal obligations cannot be outsourced. This means that the outsourced performance of automated screening of customer names against sanctions lists by entities (albeit group entities) located in overseas jurisdictions must be managed with appropriate safeguards around delivery and service interruption. This is because the service provider itself does not have the legal obligation to uphold Guernsey law and regulations.

The Thematic Report entitled *Managing Outsourcing Risk* was published in May 2011 and contained many examples of good practice in outsourcing and also practices which could be improved. A key message was that intragroup outsourcing is not inherently less risky than third-party outsourcing: intragroup outsourcing still contains many risk and performance delivery issues which should be addressed head-on. The Report is on the Commission's website.

Enforcement

Enforcement actions taken by the Division were principally channelled through remediation and remedial action requirements, including the use of third-party assurance work conducted by recognised professional firms.

Industry Liaison

The Division held a bespoke workshop on ICAAPs at its new premises on 10 February 2011 which was structured in two parts, with a morning session for non-executive directors of Guernsey-incorporated banks and an afternoon session for bank executives. Presentations were made by risk consultant Edward Sankey and Cooperative Financial Services Group Non-Executive Director Stephen Kingsley. There was a healthy dialogue in the panel discussion led by Ian Kirk. Commissioner Alex Rodger introduced the second session, aimed at Chief Executive Officers and Chief Risk Officers and the panel discussion was led by Bob Moore with Steve Watts, then chairman of the Association of Guernsey Banks ("AGB"), giving the closing remarks.

The Commission held a finance industry-wide seminar at St James on the morning of 18 October 2011. The event had key note speaker Angela Knight, CEO of the British Bankers Association. Common themes of Corporate Governance and AML/CFT were given as cross-divisional presentations, together with a specialist presentation given on enforcement by the Commission's legal counsel. There was a breakout session for banking sector members in the afternoon covering the most relevant topics for licensees. On ICAAP material we gave a "taking stock" presentation on current thinking about practice and methodology, recognising that we had dealt with "first principles" issues in the February workshop. Further presentations were made on upstreaming and large exposures and the findings of the outsourcing thematic review. An overview presentation was also made of the "regulatory horizons" based on our stock of knowledge of the Basel Committee's intentions as at October 2011.

The text of the presentations is available on the Commission's website for the benefit of attendees and those who were not able to be present.

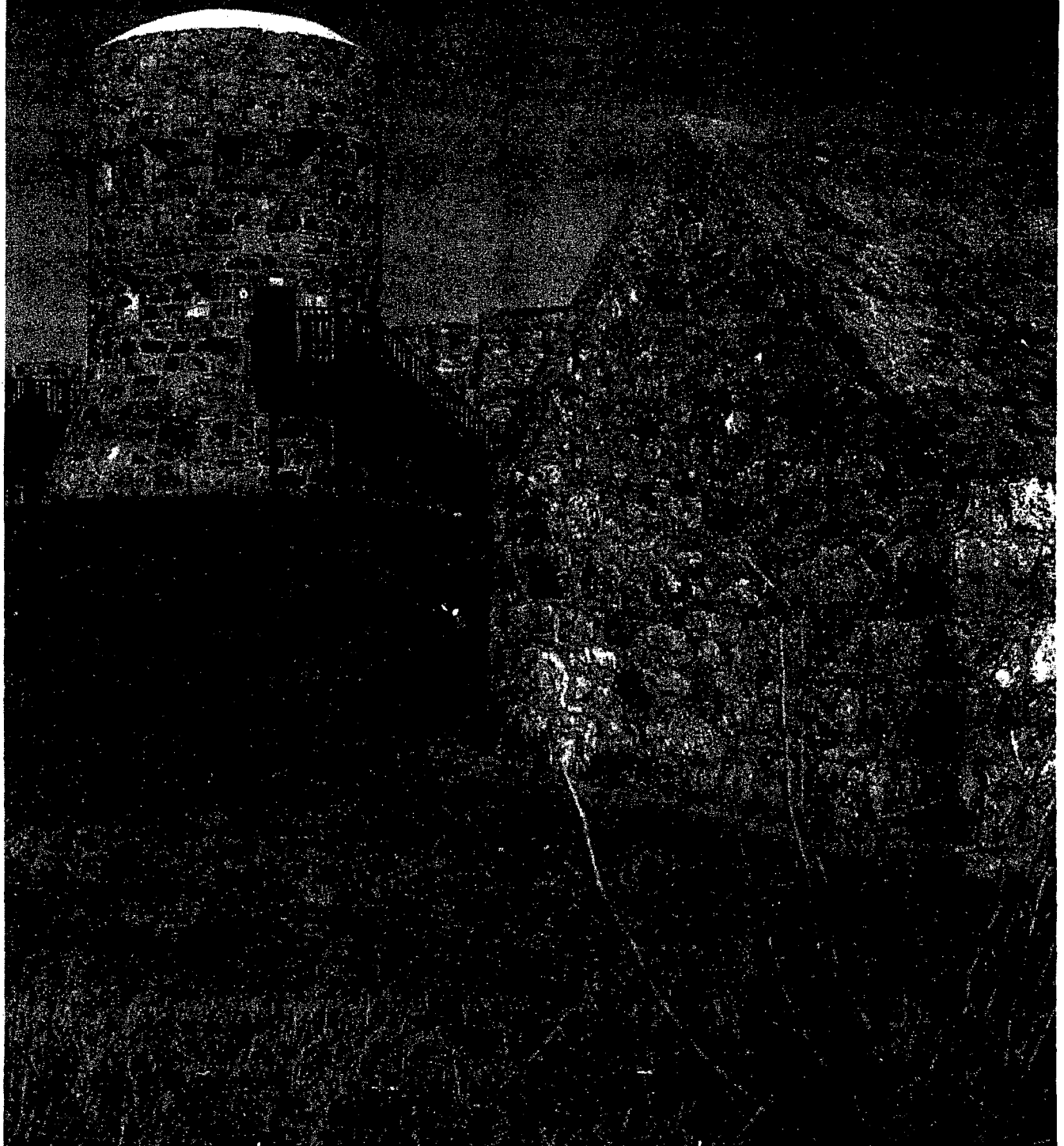
A second thematic review on data security, which is highly relevant to private banks and those engaged in wealth management but also has relevance across the wider finance sector, was conducted in the second half of 2011 using a combination of survey questionnaire input and on-site review material. The findings were made publicly available in the first quarter of 2012.

The Division continues to engage with the AGB. In 2011 this was mainly around technical issues but there was also much bilateral engagement with licensees about Eurozone exposure and contingency preparedness.

Key Objectives for 2012

- Ongoing banking supervision of licensees, including:
 - Further refinement of the ICAAP/SREP programme
 - Continuation of branch prudential visits
 - Delivery of the AML/CFT programme, continuing the three-year cycle
- Continue bilateral meetings with principal home supervisors:
 - FSA; Swiss Financial Market Supervisory Authority; Bermuda Monetary Authority
 - Attend meetings of Group of International Finance Centre Supervisors (formerly the Offshore Group of Banking Supervisors) and International Conference of Banking Supervisors
- Participate in colleges of supervisors
- Reinstate structured reviews of credit books for those banks actively providing credit facilities
- Complete revision of Code of Conduct on Advertising
- Introduce a standard licence condition for Guernsey-incorporated banks requiring them not to repatriate capital or pay dividends without the Commission's prior consent
- Review Large Exposures Policy and reissue guidance
- Continue engagement with industry and government, including regular briefing meetings with the Association of Guernsey Banks, Policy Council and the Commerce and Employment Department
- Monitor developments in the proposals to implement the Recommendations of the UK Independent Commission on Banking, liaising with our counterparts in Jersey and the Isle of Man

FIDUCIARY DIVISION



The Market

2011 saw the continuing theme of looking to emerging markets, notably Russia and China. These new markets represent opportunities for Guernsey but also require a timely reminder of the need to ensure proper policies and procedures are in place. Licensees need to ensure their organisation recognises the risks as well as the benefits from emerging markets. It is important that anti-money laundering/countering the financing of terrorism procedures are comprehensive and care is taken in other areas such as data security. It is equally important to recognise the cultural differences arising from operating in such markets.

The growth of the private equity sector has seen an increase in applications for exemptions for general partners within limited partnership structures. It is anticipated that these will continue to grow and consideration is being given to the issuing of guidance to streamline the exemption application process where appropriate.

The provision of overseas pensions from Guernsey also continued to grow. The most common schemes are those recognised by HM Treasury as Qualifying Recognised Overseas Pension Schemes ("QROPS").

International Developments

The principal issue which affected the fiduciary sector over the last year was the introduction by France of a wealth tax. The industry worked hard to ensure compliance with the new requirements before the year-end. The next challenge to face the sector is the Foreign Account Tax Compliance Act ("FATCA") which is being introduced by the United States government. It is recognised that this legislation will produce a heavy workload to ensure full compliance and which the industry will be looking to work towards once the terms of the guidance are clear.

At the end of 2011 changes to UK tax legislation on QROPS were proposed. As a requirement of the recognition of a new overseas scheme the jurisdiction in which the scheme is established must now treat all its members identically for the purposes of taxation

of benefits received. Guernsey moved to amend its tax legislation accordingly. However, in response HM Revenue and Customs withdrew and re-issued its list of approved QROPS, leaving only three schemes on the list. The issues arising from this have yet to be fully resolved.

The UK Bribery Act came into force on 1 July 2011 and licensees need to be mindful of the extraterritorial provisions contained within it in respect of British citizens.

Sector Developments

The introduction of the Retirement Annuity Trust Scheme Rules ("the RATS Rules") on 1 January 2011 was a significant step and their impact is being kept under review. Further, the introduction recognised in particular the nature of these products at a time when the importance of saving for retirement is becoming an ever greater issue. The Commission will also continue to watch the QROPS aspect of the sector closely. It welcomes the publishing by the Guernsey Association of Pension Providers ("GAPP") of a voluntary guidance for regulating QROPS and will keep under review the need to introduce rules, as well as ensuring those providing trustee services to QROPS and RATS schemes are complying fully with their obligation to be licensed. The Commission has met with GAPP in this regard.

Preparations continued for the introduction of Foundations into Guernsey Law. Work is underway in the Division with the Guernsey Association of Trustees ("GAT") and the GTA to ensure that appropriate training is available to those within the sector prior to the law being commenced.

Separately, other meetings have taken place with Guernsey Finance and industry.

Supervision

The Division undertook 37 on-site visits in 2011. Whilst breaches still continue to be identified as part of on-site visits, the Commission is pleased to report that following the issue of the Managed Trust Company Guidance by the Commission at the end of 2009, fewer issues seem to be arising in their ownership and governance compared to those mentioned in previous reports.

Issues of anti-money laundering/countering the financing of terrorism ("AML/CFT") continue to form an important part of the on-site visits conducted by the Division in 2011. Whilst the Division continues to see instances of poor collection of customer due diligence in some instances, it is also encouraged that some on-site visits have produced no AML/CFT issues at all. Indeed 2011 saw the first occasion since the Division began on-site reports that it has not had to take up breaches of the regime with a licensee following a visit.

The last year has seen some confusion within the sectors over the need to hold verification of identity data on beneficiaries "likely to benefit". In 2009 GAT issued guidance as to the circumstances when a trustee could or could not consider a beneficiary "likely to benefit". The guidance is available on the GAT website, and the attention of the finance industry as a whole and in particular the banking sector is drawn to the guidance.

In 2011 the Division completed the integration of the registered businesses to it for the purposes of AML/CFT supervision. These businesses fall into two categories: firstly the non-regulated financial services businesses ("NRFSB") which comprise a diverse cohort stretching from lending companies through to bullion and stamp dealers, money brokers and providers of safe custody, and secondly the prescribed businesses ("PB"), being lawyers, accountants and estate agents.

On-site visits were carried out to 15 registered businesses in 2011 and in the second quarter a questionnaire was issued to all registered businesses in order to gain a better understanding of the AML/CFT risks faced by these sectors. At the Industry Seminar the registered businesses team held its first dedicated session targeted at those businesses for which it has responsibility.

The registered businesses are newer to the requirements of the Handbook for Financial Services Businesses and the Handbook for Legal Professionals, Accountants and Estate Agents on Countering Financial Crime and Terrorist Financing (the "AML/CFT Handbooks") and the Commission has liaised with the GTA to develop AML/CFT training for NRFSBs and PBs, to compensate for the fact that many registered businesses have limited prior experience of regulation. The first sessions were held in December 2011.

For the first time since 2005 the Division made a specific request for the collation of statistics on assets under trusteeship in relation to the fiduciary sector and in response to the International Monetary Fund recommendations.

The Division commenced an internal project to draw together the statistics that it has available to it. The purpose of this project is to ensure in time the smarter targeting of regulatory resources.

Finally, the Division has continued to work closely with the Corporate Governance Working Party to ensure smooth steps are taken towards the implementation of the Code from 1 January 2012.

Enforcement

Over the years the Division has taken a proactive approach to enforcement and this continued in 2011. Conditions were imposed on one licensee and proactive monitoring of two licensees subject to conditions led to their eventual lifting after the problems identified during earlier on-site investigations were remedied.

With regard to the registered businesses, 15 on-site visits were conducted, three of which resulted in conditions being imposed.

Human Resources

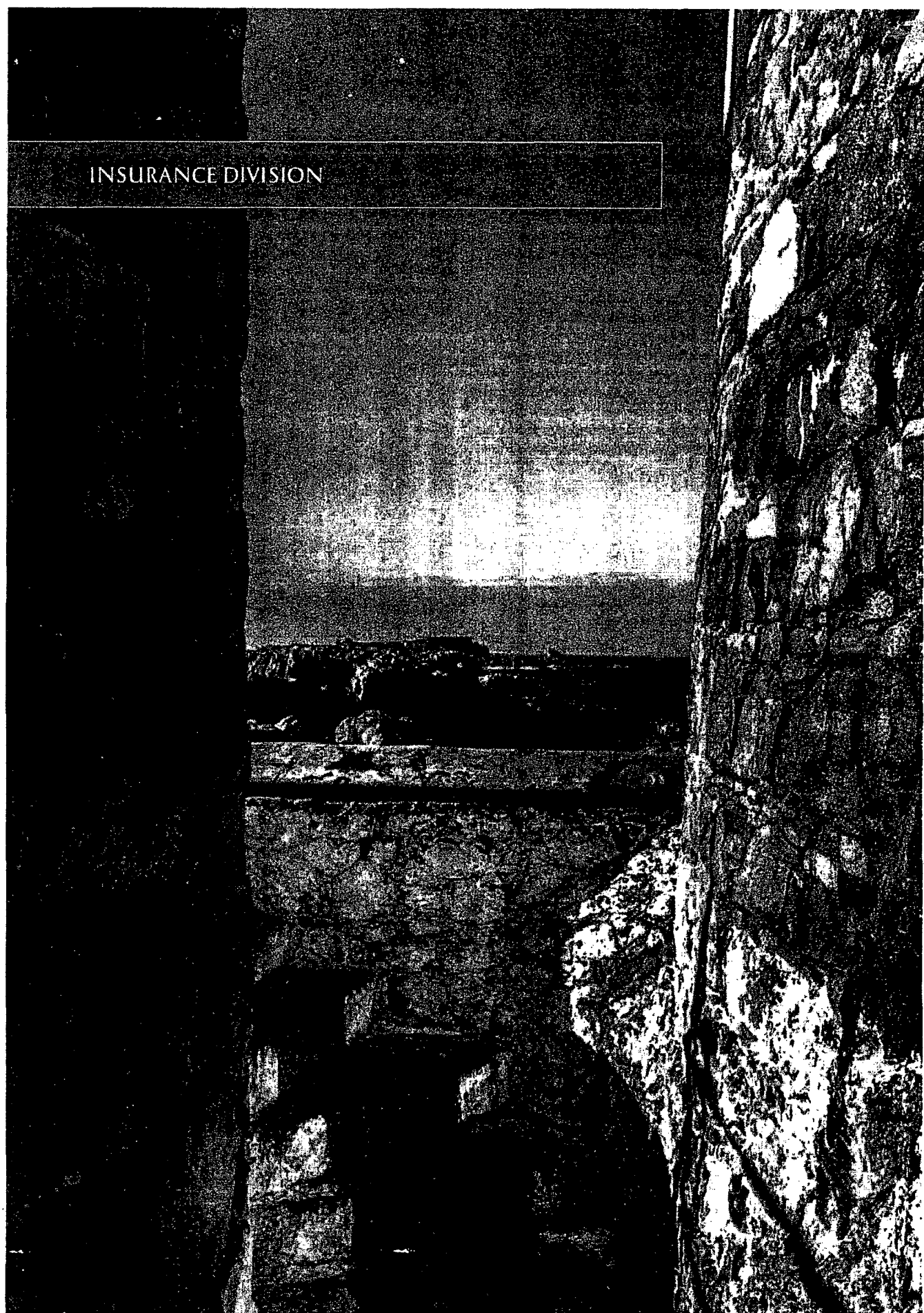
There were significant changes within the Division during 2011. The year started with Neville Johnson, the Deputy Director of Finance and Operations, being appointed Acting Director of Fiduciary Services: the Commission is very grateful to Neville Johnson for having fulfilled this role.

In April 2011 Fiona Crocker was promoted to Deputy Director of the Division, having been an Assistant Director since 2005. The new Director, Philip Nicol-Gent, arrived towards the end of June 2011, having previously been the Director of Civil Litigation at the Law Officers of the Crown. 2011 also saw the departure of Matt Hutchison, an Assistant Director, to work in industry. With two vacancies, two new Assistant Directors were appointed to the Division – David McCloskey, formerly a Senior Analyst within the Investment Business Division, and Paul Evans, who joined the Division from industry.

2011 also saw a structural change to the Division notwithstanding which the process of supervision continued with little interruption. The Intelligence Team moved to come within the Director General's Division and with its departure a new Team joined to oversee the registered businesses. The Team is headed by Rosemary Stevens, a newly appointed Assistant Director. Rosemary is a chartered accountant who has worked in private practice, the finance sector and at the Guernsey Financial Investigation Unit, and she is supported by Rosanna Hendry, a Senior Analyst who has been involved with this sector since its inception.

Key Objectives for 2012

- Produce a Code for Foundation Services Providers.
- Ensure the sector has access to appropriate training on Foundations.
- Review the applications process, especially those for exemptions.
- Monitor and respond as necessary to developments in the legislative framework for QROPS.
- Improve the statistical base for supervision.
- Re-engage with other regulators of fiduciary business, especially those in Jersey, the Isle of Man and Gibraltar.
- Continue and develop engagement with industry.



INSURANCE DIVISION

The Market

Losses of US\$350–380 billion from disasters such as the Japanese tsunami and the New Zealand earthquakes, together with persistently record low interest rates, the pre-implementation costs of Solvency II and the continuation of the euro crisis made 2011 a challenging year for the insurance industry.

Nevertheless, in comparative terms, the Guernsey insurance sector was less affected by these global developments due to the conservative profile of the captive sector, the limited nature of the re-insurance market in Guernsey, and the fact that the Guernsey insurance sector is more UK than Eurozone-focused.

In 2011, the local market remained relatively stable in terms of licences. In 2011, there were 11 licensed domestic insurers compared to 13 in 2010, 39 licensed insurance intermediaries compared to 38 in 2010, and 19 authorised managers compared to 20 in 2010.

In 2011 the number of international licences grew slightly to 687 from 675 in 2010.

Total licence numbers and monthly trends by licence types are set out in Figure 9 on page 58.

A minor theme has been a fall in the number of companies – to 255 in 2011 from 265 in 2010 – compared to a rise in the number of protected cell company ("PCC") cells to 267 in 2011 from 252 in 2010. This reflects the attractiveness of the PCC structure.

Despite relative stability in the total licence number, 60 licences were surrendered and 72 granted, as illustrated in Figures 10 and 11 on page 58. This is normal but shows the degree of licence activity in the sector in response to business demands.

In 2011, the Commission subjected past business statistics to rigorous review, linking them to annual inflation and correcting previous errors. The results are set out in Figures 12–14 on pages 58–59.

It can be seen that business in nominal terms rose in all areas in 2011. However, in terms of the inflation-linked figures, premium levels continue to be relatively flat, reflecting the continued soft market in the global insurance industry.

Detailed business activity remained largely unchanged in 2011. The captive market remains the most significant in Guernsey, although the non-captive industry also remains important. As Figure 15 on page 59 shows, almost two-thirds of new licences were for UK-based firms, reflecting the UK nature of the Guernsey captive market. Innovation by new licensees continues, especially in the re-insurance sector.

In 2011, eight candidates qualified for the Guernsey Insurance Certificate, reflecting the fact that new entrants to this sector are limited in number.

International Developments

Global insurance standards continued to develop in 2011, with considerable activity at the International Association of Insurance Supervisors ("IAIS") and also in the European Union. International insurance supervisors also considered the potential impact of adverse macro-economic developments on the global insurance market.

In 2011, the Commission rationalised its activities with IAIS so as to concentrate in particular on solvency and captive issues and attendance at the Technical Committee. The Commission visited four overseas regulatory bodies, one of which involved participation in a regulatory college.

The Commission attended three meetings of the Offshore Group of Insurance Supervisors ("OGIS"), and continued to contribute generally to OGIS activities.

The Commission continued in 2011 to take forward residual measures arising from the 2010 International Monetary Fund visit. This included, for example, consideration of issues such as group supervision and insolvency wind-up requirements. In October 2011, IAIS agreed a new set of Insurance Core Principles and by end-year the Commission had completed an initial gap analysis so as to enable gap fill to take place in 2012–2013.

In January 2011, the Commission and the Department of Commerce and Employment issued a public statement on Guernsey's approach to Solvency II equivalence. This statement said that Guernsey was not seeking equivalence but would monitor developments closely.

Supervision

The Commission continues to stay in close touch with industry developments, not least through regular meetings with the local insurance and insurance intermediary trade bodies, as well as periodic meetings with individual insurance managers. The main areas of consideration were the strategic approach to the IAIS Insurance Core Principles and Guernsey's approach to Solvency II equivalence.

In 2011, the Commission completed 23 on-site visits, covering a spectrum of licensees. The main thematic finding of these visits was that several firms paid insufficient attention to the maintenance of appropriate records and documentation. Appropriate action was taken by the Commission in these cases, including the requirement to put in place remedial action plans.

During its on-site visits, the Commission also noted several thematic gaps in anti-money laundering/countering the financing of terrorism compliance. These included, for example, weak business risk assessments. In these cases, firms were required to take appropriate remedial action by the Commission.

The Commission held numerous bilateral meetings with firms to discuss regulatory issues. These meetings covered a wide range of issues, relating to both solvency and more general qualitative issues.

Apart from individual meetings with licensees, the Commission met several local Non-Executive Directors as part of the process for putting together a paper on the use of Own Solvency Capital Assessments ("OSCA"). This paper recorded the various approaches taken by insurance firms in determining their own respective solvency assessments.

The Commission required 28 firms to stress-test their solvency position, using a combination of pre-determined scenarios set out by the Commission and reverse stress-testing. The consequent papers on both OSCAs and stress-testing, together with a paper on actuarial standards, are all published on the Commission's website.

In order to determine its eventual advice to government on whether in Guernsey to adopt the UK's policy set out in the UK Financial Services Authority's Retail Distribution Review ("RDR"), the Commission liaised closely with, among others, local insurance intermediaries. The Commission will submit its advice in 2012.

The Commission continues to play a part in policing the insurance intermediary perimeter. In 2011, the Insurance Division investigated two allegations of persons acting as an insurance intermediary without a licence. No further action was taken in either case.

As part of the Commission's commitment to transparency, in 2011 the Division outlined the implementation of its business plan during the October 2011 industry-wide seminar. It also published several feed-back papers and enhanced published statistics relating to the insurance sector.

In 2011, the Insurance Division concluded director disqualification proceedings against one individual for providing false and misleading information to the Commission and allowing a company to undertake insurance business without a licence. The Insurance Division has also commenced director disqualification proceedings against another individual who was recently convicted of money laundering offences.

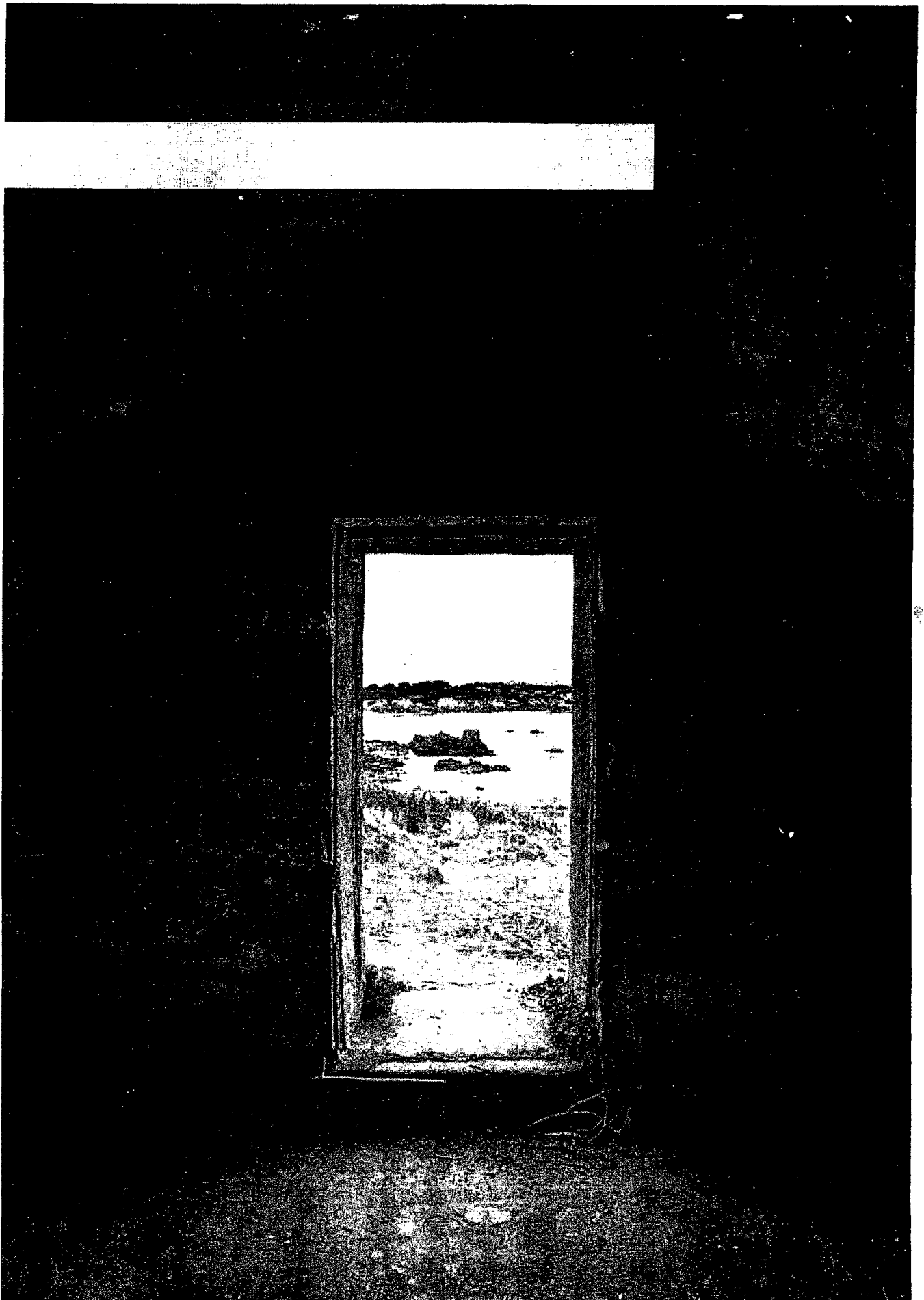
In 2011, there were several staff changes that included the appointment of a new Director and Deputy Director. The Division consists of 18 full-time employees.

In 2010, the Commission committed to continue to support the strengthening of corporate governance standards, meet international standards and maintain on-site visits. The issuance of the new Commission-wide corporate governance code, adherence to the Insurance Core Principles and the completion of the on-site programme meant that the Commission met these objectives.

Key Objectives for 2012

These are:

- To focus more on proactive supervision.
- To define the Commission's response to new international regulations.
- To play a full and active part in the continuing transformation of the Commission resulting from the Review referred to in the Chairman's statement.
- To improve the statistical base for supervision.



Global economic conditions, including the ongoing problems within the Eurozone, continued to have an effect upon the Guernsey investment business sector during 2011. Global stock markets saw significant volatility during the course of the year which had an impact on listed investment valuations, albeit there were examples of gains as well as losses. Overall market confidence was generally low and, even when it did begin to show signs of improvement, this experience was not consistent across the sector, rather it was limited to individual firms or groups of firms. There continued to be lack of liquidity in the investment sector and new product offerings were generally on a par with the past couple of years.

This background obviously had an impact on the levels of new business considered by the Commission. Sixty-four new licences to conduct controlled investment business were issued during the year (2010: 48) whilst in the investment fund sector 19 open-ended and 75 closed-ended collective investment schemes were either authorised or registered (2010: 27 and 62 respectively). A total of 125 new classes of existing open-ended collective investment schemes were approved (2010: 131) and finally, 44 approvals for the provision of specific services to non-Guernsey schemes were issued (2010: 106).

The various sectors within the overall investment fund community experienced varying fortunes in terms of valuations. In the open-ended sector the net asset value of Guernsey-regulated funds fell over the course of the year from £57.9 billion to £55.3 billion, a decrease of 4.5%. Net new investment into that sector over the year was £5.2 billion, which means that market movements,

including foreign exchange fluctuations, resulted in losses of approximately £7.8 billion. In the closed-ended sector the net asset value of Guernsey-regulated funds increased from £109.5 billion at 1 January to £119.1 billion at 31 December 2011, an increase of 8.8%. This apparently inconsistent performance is probably not unexpected when you consider that the valuation of a significant number of assets within closed-ended structures is not necessarily directly correlated to stock market performance, especially in the private equity arena and vehicles investing in physical assets such as real property. Overall, the net asset value of Guernsey-regulated investment funds rose by some £7 billion to end the year at £174.4 billion, an increase of 4.7%. The value of non-Guernsey open-ended collective investment schemes serviced from Guernsey fell by £3.0 billion to finish the year at £87 billion, a decrease of 3.3%.

The values of assets in the non-fund sector, covering asset managers and stockbrokers, as at 31 December 2011 were £87.3 billion, an increase of £11.8 billion over the year.

As reported last year, the International Organization of Securities Commissions ("IOSCO") had previously carried out work, against the background of the international economic crisis, resulting in the introduction of eight new Principles of Securities Regulation, bringing the total to 38. The Principles set out a broad general framework for the regulation of securities, which in the Guernsey context includes investment funds and all licensees under the Protection of Investors legislative framework. The IOSCO Principles are one of the important standards and codes highlighted by the Financial Stability Board as key to sound financial systems. During 2011 IOSCO worked on a revised methodology to support the 38 Principles and this was completed in late 2011. During the first half of 2012 the Commission will update its own self-assessment in terms of the Bailiwick's compliance with the Principles and will identify the possible remedial action that may be required if significant deficiencies are identified. This may necessitate amendments to the Protection of Investors Law and the underlying rules and regulations, with any such proposals obviously being subject to full public consultation.

Developments within, and emanating from, the European Union ("EU") continued to require a large amount of attention from the Investment Business Division throughout 2011. The Alternative Investment Fund Managers Directive ("AIFMD") remained of particular interest, not just to the Commission but also to the States and the local investment fund sector, and this is likely to continue. The Directive came into force in July 2011, meaning that each Member State is now required to transpose the AIFMD into national law by July 2013.

The European Securities and Markets Authority ("ESMA") issued two consultations during 2011 covering the Directive and the Commission responded to the second consultation that specifically referred to issues relating to third countries. ESMA's initial draft advice on third country arrangements was considered by many to be unworkable, due in particular to equivalence and enforcement requirements. ESMA's final advice to the European Commission is less prescriptive and provides a framework for more workable third country cooperation agreements. However, the current provisions still need to be clarified to ensure consistent treatment by all regulatory authorities. The European Commission is expected to publish the regulations emanating from this advice during the middle of 2012.

On 20 October 2011 the European Commission tabled proposals to revise the Markets in Financial Instruments Directive ("MiFID"). The proposals cover a range of issues but of most interest to the Commission are those relating to third country access to the EU. Currently the access of third country firms to the EU markets is not harmonised under MiFID. Each Member State can introduce its own third country regime, subject to the general principles of the Treaty on the Functioning of the European Union and provided that national provisions do not result in treatment more favourable than that given to EU firms. In order to overcome the existing fragmentation and to ensure a level playing field in the

EU for third country players, the European Commission proposes to introduce a harmonised third country equivalence regime in MiFID for the access of third country investment firms and market operators to the EU.

In effect, third country firms wishing to provide investment services or activities with ancillary services to EU retail clients will need to establish a branch in the EU. Third country investment firms seeking to provide services to professional and eligible counterparties will not have to establish a branch in the Member State, rather they will need to be registered with ESMA prior to their offering services. Overarching this is the requirement that the third country (in which the firm is domiciled) regulatory regime should have been subject to some form of assessment in terms of equivalence with the relevant EU regulation. The Commission will continue to keep abreast of developments and will work with the States and industry in considering what measures might be required to enable Guernsey-regulated firms to operate under any new European regime.

In light of the number, and nature, of regulatory directives and regulations being released or considered by the European Union bodies, it is expected that this area will continue to require close attention during 2012 and beyond, specifically as they apply to third countries such as the Bailiwick of Guernsey.

Senior staff of the Investment Business Division have participated in various meetings and conferences of regulatory authorities and organisations during 2011 in order to meet with regulatory counterparts and understand better initiatives and developments that impact, or might impact, the Commission's scope and nature of regulation. Meetings attended included the Annual Meeting of IOSCO, the European Regional Committee of IOSCO, the Enlarged Contact Group of Collective Investment Schemes Supervisors and the United States Securities and Exchange Commission's International Supervisory and Enforcement Program.

Liaison meetings, covering matters of mutual concern and interest, have also specifically been held with regulators including the Jersey Financial Services Commission and the United Kingdom Financial Services Authority ("FSA"). The Director of Investment Business also attended meetings and presentations in Brussels and Paris connected with the AIFMD initiatives, which were variously attended by ESMA, the European Commission, European national securities regulators as well as individual firms and trade associations with an interest in those developments.

The Investment Business Division's main regulatory activities are undertaken by functional teams, being: (1) desk-based monitoring, covering routine and ad hoc submissions from regulated firms and collective investment schemes including notifications, pricing errors, rule breaches and complaints; (2) on-site visits, undertaking visits to licensees to review their compliance with regulatory obligations as well as desk top reviews of information provided by licensees in response to Commission requests for information; and (3) applications for new business, including new licences together with collective investment schemes' authorisations and registrations.

As would be expected, the desk-based monitoring function saw considerable activity over the course of 2011 as licensees and collective investment schemes reacted to the wider global economic conditions. A large number of changes were made to existing structures, including various parties to licensees and funds, changes to investment objectives, and in some cases, the closure or winding up of investment structures that were no longer deemed economic or able to achieve the investment aims for which they were established. Desk-based monitoring is one of the primary methods by which the Investment Business Division can become aware of potential or actual concerns relating to regulated firms and/or products and the function is not simply limited to the processing and administration of regulatory submissions.

Another method of identifying or confirming potential or actual concerns of a regulatory nature is that of on-site visits to licensees, covering their operation and activities within the scope of the applicable regulatory regime. During the year a total of 22 visits were conducted, including five undertaken jointly with other divisions. The visits undertaken by the Investment Business Division covered not only the directly licensed firms but 185 administered licensees, 476 regulated collective investment schemes and 51 non-Guernsey schemes. Matters identified during these visits are reported to the licensee's senior management and will be considered for possible enforcement action. Enforcement issues are covered in the relevant section below.

Anti-money laundering and countering the financing of terrorism ("AML/CFT") issues form a significant part of the division's on-site visit process and are undertaken either as part of a full-scope on-site visit or as a stand-alone visit focusing solely on specific AML/CFT matters. As noted below, under Enforcement, where deficiencies have been identified which are considered to be of sufficient concern, proportionate enforcement action is undertaken. In addition, the division, working with colleagues in the Commission's Policy and International Affairs team, has responded to numerous questions and queries in relation to various aspects of the AML/CFT regime.

2011 was a challenging year for the Investment Business Division, taking account of the changing global environment, the increased focus on international regulatory developments, including those emanating from the EU together with involvement in a number of initiatives impacting all of the Commission and which are covered

elsewhere in this Annual Report, including the Independent Evaluation Review, the implementation of updated Commission-wide enforcement policies and procedures and the Commission's Code of Corporate Governance for the finance sector.

A workstream that had commenced late in 2010 made progress during 2011. A Working Party, consisting of staff of the Commission's Investment Business Division and representatives of the Guernsey investment fund sector, was established to review the existing rules covering Class B open-ended collective investment schemes to consider what amendments might be required in the light of current experience and taking account of similar rules implemented or revised by the Commission over the past five years. Class B open-ended collective investment schemes form the majority of the open-ended fund sector within the Bailiwick and this was the first substantive review of the rules undertaken since their introduction. The working party was able to progress this consideration and, although it was not possible to issue draft proposed rules for consultation before the end of 2011, consultation commenced in February 2012.

The Investment Business Division, together with the Commission's Insurance Division, kept under review the developments regarding the United Kingdom Financial Services Authority's Retail Distribution Review ("RDR"), which is a key part of their consumer protection strategy.

Staff of the Investment Business Division kept in contact with industry over the course of 2011. Individual bilateral meetings between the Commission and firms are a regular feature of the Investment Business Division's supervisory activities, and covered routine regulatory matters, issues of interest and/or concern as well as introductions to new senior management or members of group operations with a remit covering the Bailiwick. Regular meetings were held between members of the division's senior management team and the senior personnel representing the two investment sector trade bodies, being the Guernsey Investment Funds Association and the Guernsey Investment Managers and Stockbrokers Association. These meetings provided good opportunities to communicate and discuss current and future initiatives and issues arising from the Commission's activities.

As indicated in the Supervision section above, matters identified during on-site visits will be reported to the subject licensee's senior management at the conclusion of the visit and will be considered in terms of whether any enforcement action is considered necessary. That consideration will include, inter alia, the nature, scope and extent of any breaches together with the licensee's previous compliance history and whether the issues have already been identified and steps taken to remediate before the Commission became aware.

As has been previously reported by the Investment Business Division, the most common form of action taken in such circumstances has tended to be the imposition of conditions on the licensee involved. The imposition of conditions is subject to the normal safeguards provided for in the Protection of Investors Law and licensees are fully entitled to contest and appeal to the Courts in respect of any proposal to impose a licence condition. At the start of 2011, seven licensees had conditions imposed on their individual licences with their agreement. During the course of the year four new sets of agreed conditions were imposed on licensees whilst five sets were removed. Therefore, as at 31 December 2011, six licensees had conditions imposed on their licences.

In terms of the new conditions imposed during 2011, three of the cases resulted from failures to meet the relevant requirements of the AML/CFT Handbook. In these cases remedial action was required of the licensees concerned to ensure that the failures were addressed on a timely and complete basis. In the other case the licensee concerned had not met the due diligence requirements expected of firms submitting applications for Qualifying Investor Funds or Registered Funds, both of which require licensees to provide warranties to the Commission confirming that they have undertaken certain minimum due diligence on the relevant parties to the subject fund. This allows the Commission to

undertake to process the application within a limited time frame. The imposed condition has resulted in the licensee concerned having to submit additional information to the Commission with the application so that the Commission can assess the level and nature of the due diligence undertaken. The time allowed for the Commission's consideration is increased to allow a more detailed review of this material than would normally be the case under the "fast track" regimes. To date, licensees who have experienced this condition have amended their processes and procedures such that no licensee has yet been totally excluded from the regime.

During the course of the year divisional staff were involved in the implementation of revised enforcement processes and procedures for the Commission. The division has been working with the Commission's Legal Counsel on various matters that required consideration of possible enforcement action, including the late submission of financial statements and breaches of financial resources requirements and other regulatory obligations. The conclusions of those matters have been communicated to the licensees concerned. Divisional staff have also been working on a number of cases that have required significant input due to the nature and complexity of the issues under consideration. Any investigations undertaken by the Commission are confidential and covered by legal provisions. Whilst it is acknowledged that it can be frustrating for affected parties, for example individuals complaining about a licensee or a licensee in dispute with another, not to know what action the Commission is undertaking, it is not possible for the Commission to breach these confidentiality provisions, neither would it wish to undertake investigations of this nature in the public domain.

At the start of 2011 the Investment Business Division had a complement of 29 staff (27 full-time equivalents ("FTEs")). Various staff movements occurred during the year, including the promotion of the previous Deputy Director to Director and the promotion of two former Assistant Directors, to Deputy

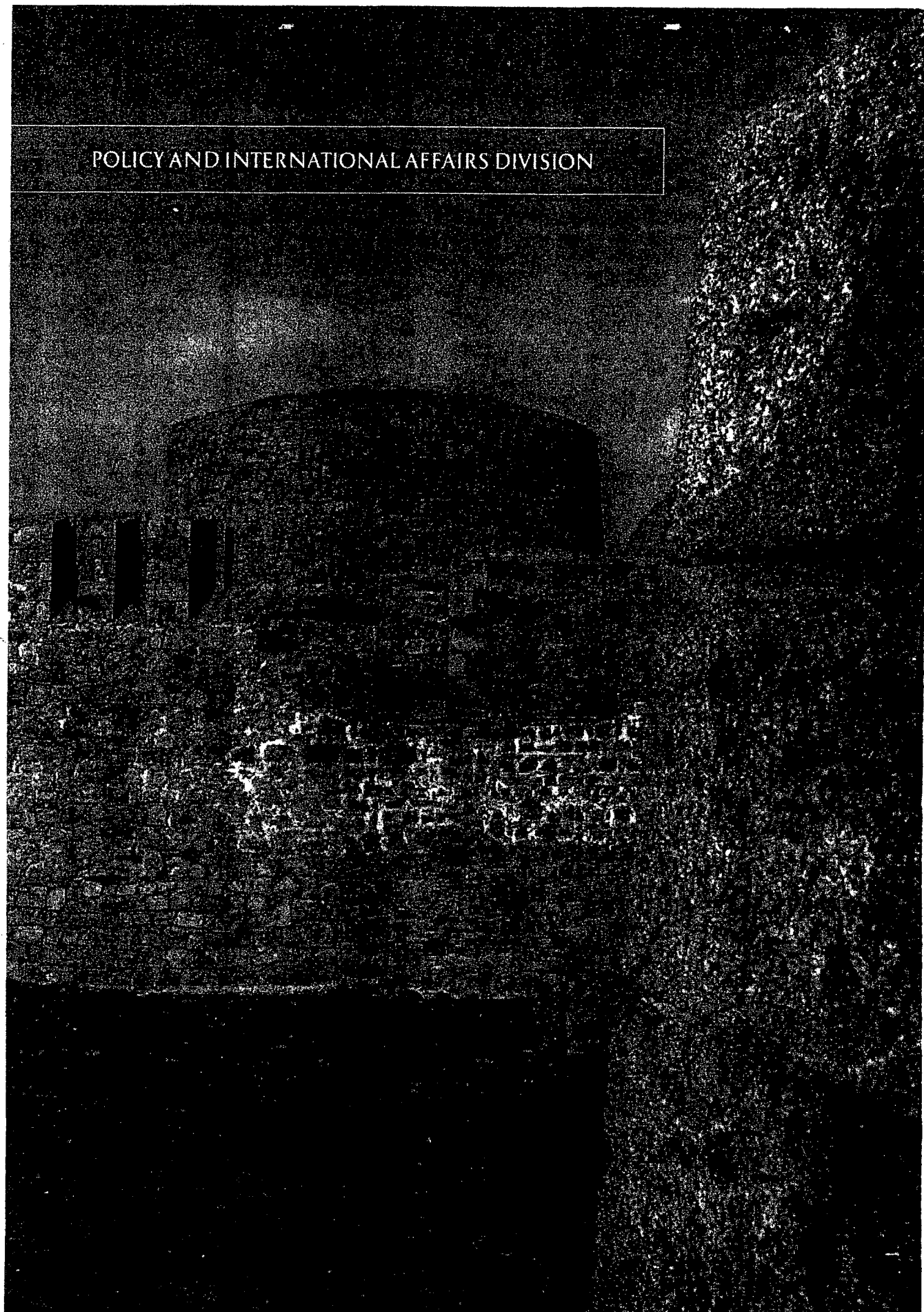
Directors, as well as the promotion of two former senior analysts to Assistant Directors. Over the course of the year four staff left the division whilst five were recruited, so that at the end of 2011 there were 30 staff (28 FTEs).

Key Objectives

These are:

- Implement revised Class B Rules during the first half of 2012, having undertaken a public consultation process and provided detailed feedback as part of that process.
- Conduct self-assessments against the updated IOSCO Principles of Securities Regulation and consider the action required, including the extent and nature of any changes to legislation or underlying rules and regulations.
- Continue to engage with European authorities, including the European Securities and Markets Authority, the UK FSA (and successor body) and other European national regulatory authorities in respect of the Alternative Investment Fund Managers to consider the nature of any changes required in Guernsey's regulatory framework, including the access of Guernsey investment funds for marketing to EU-resident investors.
- Continue to prioritise on-site visits undertaken by the Investment Business Division using a risk-based approach and increasing the focus on risk-based supervision more generally.

POLICY AND INTERNATIONAL AFFAIRS DIVISION



General

The Policy and International Affairs team has responsibility for coordinating many of the local and international policy issues facing the Commission, including changes to legislation. The team also has responsibility for the Commission's policies on the anti-money laundering/countering the financing of terrorism ("AML/CFT") framework, including the AML/CFT Handbooks. Together with the Director General, the Policy and International

Affairs team is the Commission's main link with the Policy Council and the Procureur's (Attorney General's) Office on policy matters. It is also the main link with certain international bodies, including the International Monetary Fund ("IMF"). In addition, the team coordinates a number of cross-divisional matters such as legislation.

Cooperation, Coordination and Feedback

The AML/CFT Advisory Committee met three times in 2011. The committee is a forum for closer coordination at a strategic level between the Attorney General's Office, the Commission (including the Director of Policy and International Affairs), the Guernsey Border Agency (including the Financial Intelligence Service ("FIS")), Police, Income Tax, the Guernsey Company Registry and the Alderney Gambling Control Commission ("AGCC") in the prevention, detection, investigation and prosecution of money laundering and terrorist financing.

The Financial Crime Group (which includes the Commission's Deputy Director of Intelligence Services) reports to the Advisory Committee. Its objectives are primarily to discuss the implications for policy and practice of particular cases of interest and to provide practical assistance to interested parties. The group met four times in 2011. The Terrorist Finance Team, which was established by the group to coordinate action and responsibilities relating to terrorism matters, met twice in 2011.

In 2010 a new Sanctions Committee was established. This committee reports to the External Relations Group of the Policy Council and the AML/CFT Advisory Committee. It comprises representatives of the Policy Council, the Law Officers' Chambers, the AGCC, the Guernsey Border Agency and the Commission, and replaces the informal network of these organisations which had previously liaised on sanctions matters. The committee, chaired by the Director of Policy and International Affairs, and on which the Deputy Director of Intelligence Services sits as a member, met twice in 2011.

An anti-bribery and corruption committee was also formed towards the end of 2010. This committee reports to the AML/CFT Advisory Committee. The Director of Policy and International Affairs represents the Commission on the committee, which met twice in 2011.

The new committees respond to the increasing global focus on sanctions, bribery and corruption.

AML/CFT Developments and Initiatives

In 2011 the Commission undertook 94 on-site inspections of institutions' AML/CFT frameworks. Sanctions were also issued by the Commission in respect of AML/CFT failings of some licensees.

The Commission maintained its programme of enhancements to the AML/CFT framework to seek to ensure the Bailiwick continues to meet the Financial Action Task Force ("FATF") Recommendations and Special Recommendations. In 2011 the Commission issued four further instructions in respect of business from sensitive sources. Three of these instructions required financial services businesses and prescribed businesses in Guernsey to undertake enhanced customer due diligence measures and to pay special attention to business or transactions from countries or territories specified in the instructions. The fourth instruction resulted from the FATF's particular concern about Iran's failure to address the risk of terrorist financing. It required financial services businesses and

prescribed businesses to advise the Commission of any business relationships and transactions with any Iranian banks, including their branches and subsidiaries, or the Central Bank of Iran.

Some modifications were made to the AML/CFT Handbooks during 2011. In July, the AML/CFT Handbooks were amended to take account of the Disclosure (Bailiwick of Guernsey) (Amendment) Regulations, 2011 and the Terrorism and Crime (Amendment) Regulations, 2011, which provided for the electronic reporting of suspicion. In August, appendix C to the AML/CFT Handbooks was revised to add Bulgaria, Estonia, Latvia, Lithuania and Liechtenstein as jurisdictions whose financial services businesses and, in certain cases, prescribed businesses may be treated as if they were local.

Other Developments in 2011

The major objective for the Policy and International Affairs team in 2011 was to issue the Finance Sector Code of Corporate Governance. The Code had been the subject of consultation with the finance sector in 2010. A revised draft was issued for consultation in April 2011. Following consideration of feedback by industry, the final version of the Code was published in September. Financial services businesses subject to the Code had a transitional period until 1 January 2012, at which time the Code came into force. The Commission expects the companies subject to the Code to conduct self-assessments of compliance with it. Early in 2012 the Commission's supervisory Divisions commenced discussion with industry on the language of the assurance statement to be provided by firms, confirming that they meet the Code within the context of the scale, nature and complexity of their businesses.

The Division is responsible for coordinating the signing of cooperation and information exchange agreements, such as Memoranda of Understanding ("MoUs") between the Commission and overseas supervisory bodies. In 2011 the Commission signed two MoUs, one with the Federal Financial Supervisory Authority of Germany ("BaFin") and the other with the Polish Financial Supervision Authority. In November the Commission signed a Statement of Cooperation with the China Banking Regulatory Commission. Effective cooperation and information exchange are attracting increasing global focus. It will be important to continue to ensure that the Commission pays close attention to this area of activity.

Two significant legal projects began in 2011. The first of these was to take forward a consistent and enhanced legal framework for the issue of sanctions by the Commission. The second was to progress the consolidation of the main supervisory legislation. Consultation proposals on sanctions were prepared to the extent

that they could be finalised shortly after the issue of the Review report. Following the completion of that report it has been decided that the two projects should be merged and the proposals on sanctions will now be included within the consolidation exercise. Sanctions provisions will form an integral part of the consolidation law. The provisions to do with controllers, directors and managers of licensees in terms of the notification requirements and the Commission's powers in respect of them were also close to finalisation by the end of 2011.

None of the IMF's recommendations in its evaluation reports on Guernsey was substantial. The most important AML/CFT recommendation to be addressed was to increase the frequency of AML/CFT on-site inspections to fiduciaries. This was achieved by the Fiduciary Services Division undertaking 37 inspections in 2011. With reference to insurance supervision, the IMF's recommendation that policy holders should have first priority in a winding up is dependent on the proposed new insolvency law that is to be taken forward by the States Commerce and Employment Department.

The Policy and International Affairs team also began work on refining the Commission's approach to risk. The changing international standards of the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the International Organization of Securities Commissions will require enhanced approaches to risk both at the level of the licensee and at the level of macro prudential supervision. This work was commenced in 2011 with the aim of adopting the new approach in 2013.

International Work

The Policy and International Affairs team monitors developments by the FATF, by attending the three plenaries held each year. During the year the FATF continued a review of its Recommendations and Special Recommendations. The Director and Deputy Director participated in the two main working groups taking forward this work.

The Director is Chair of the International Association of Insurance Supervisors ("IAIS") Supervisory Cooperation Subcommittee and the Multilateral Memorandum of Understanding Signatories

Working Group. These groups meet by teleconference and in the margins of the IAIS triannual meetings. During the year the Director chaired an IAIS working group reviewing adherence by IAIS members with the Insurance Core Principles on cooperation and information exchange. The working group's report was issued in early 2012.

IMF Surveys

The Commission provides statistics from Guernsey financial institutions to the IMF for its Coordinated Portfolio Investment Survey on an annual basis. Each year, institutions are asked to provide cross-border statistics in respect of Guernsey banks, open and closed-end collective investment funds, insurers, insurance intermediaries/brokers and special-purpose vehicles. The statistics for 2010 were obtained in respect of 104 institutions, representing 1,119 entities. Table 7 on page 64 provides a summary of the results for 2010.

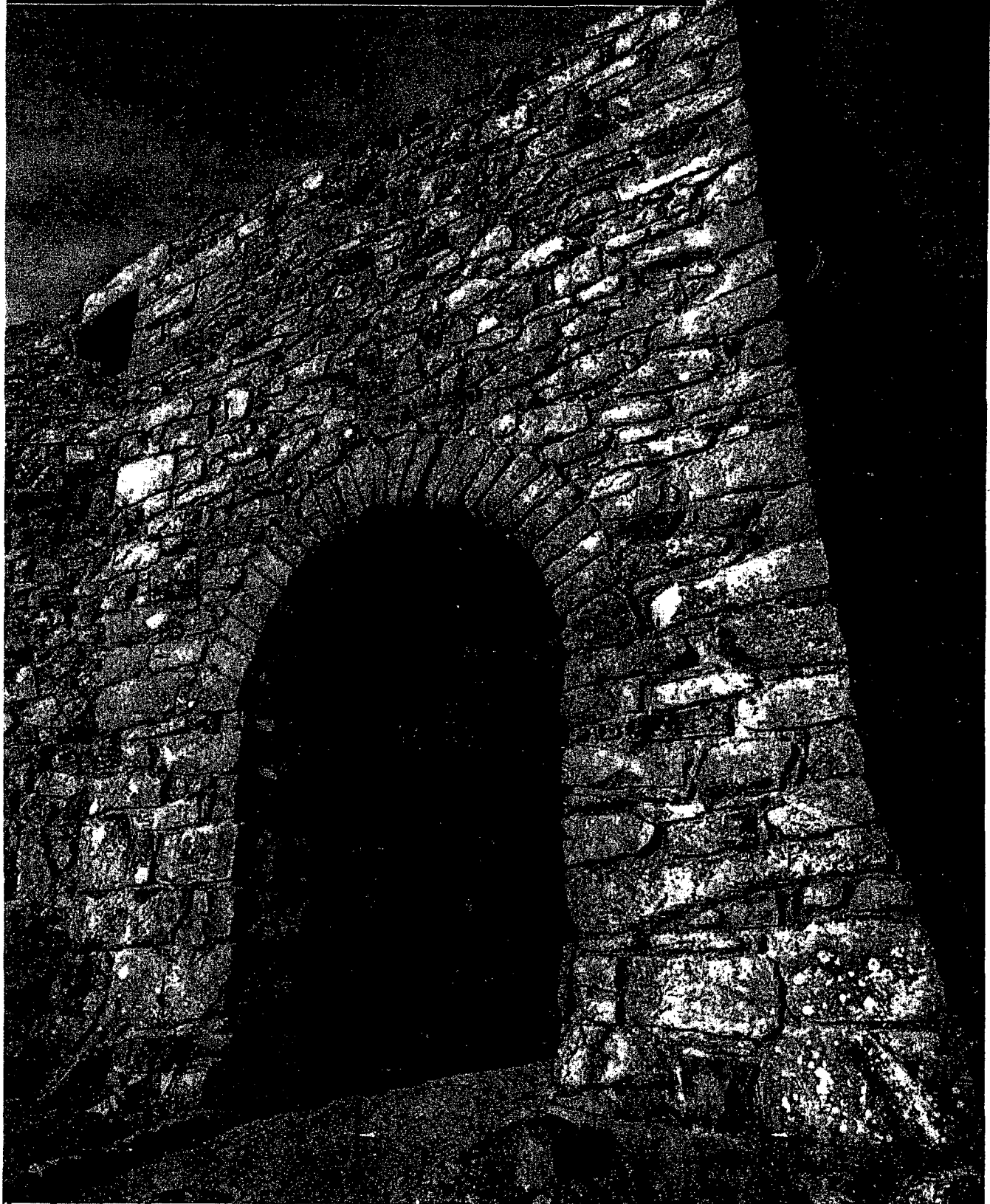
The total value of assets reported for Guernsey financial institutions as at 31 December 2010 was US\$225.7 billion, an increase of US\$32.6 billion over the assets reported in the 2009 survey. Figure 25 on page 64 shows the results from Guernsey institutions over the last four years. By the end of 2010 the total assets held by investment funds were, at US\$172.1 billion, nearly back to the level of US\$184.0 billion seen in 2007.

During 2011 the Commission participated for the seventh time in the IMF's information dissemination and monitoring framework initiative. The information provided helps to improve transparency in the activities of finance centres around the world and aids the IMF and policymakers in the major countries in formulating a view as to the size, type and global impact of individual finance centres. Participating jurisdictions provide the IMF with statistics relating to banks, insurers, collective investment funds and company and trust service providers, together with high-level data for the finance sector and the jurisdiction as a whole.

Key Objectives for 2012

- Finalise and issue a consultation paper on consolidation of the main supervisory legislation
- Update and pilot enhanced Commission-wide approaches to risk-profiling licensees and macro-prudential risk.
- Coordinate the Commission's responses to international regulatory and supervisory standards as they evolve.
- Plan, coordinate and oversee the Commission's relationships with international authorities and bodies.

FINANCE AND OPERATIONS DIVISION



General

The Division is responsible for the provision of key support services to the Commission, covering financial and management information, communication and information systems, human resources, facilities management and general administration.

Financial Information

The financial statements are shown on pages 39 to 51.

The overall surplus for the year 2011 is £1,643,645 compared to the surplus in 2010 of £916,224. This improved result is primarily due to a one-time net gain of £540,568 arising from a transfer of pension liabilities for staff previously seconded to the GIA University Centre, but also combines an increase in fee revenue and increases in direct costs and, largely as a result of legal and professional expenses, common costs. Income and expenses by sector are set out in Table 8 on page 65.

Salary and related costs for the year, excluding the pension liabilities transfer referred to above, were £7,917,626 compared to £7,671,235 (3.2%) in 2010. An analysis of this figure is provided in Table 9 on page 65, and an analysis of the number of staff in each salary band is shown in Table 10 on page 65.

The increase in common costs in 2011 reflects, in part, the expenses associated with the Review, which is described elsewhere in this report. The Review had been completed and had advanced to the implementation phase by the end of 2011, with costs incurred of £437,000. Costs associated with investigative and enforcement activity increased in 2011 to £308,000 from £104,000. Staff costs were overall approximately 4% lower than in the previous year. Overall, expenses for the year ended 31 December 2011 were 4.9% higher than in 2010.

The Commission faces a further period of cost in 2012 and possibly beyond as the recommendations of the Review are implemented, though the financial impact cannot yet be established.

A breakdown of Commissioners' fees is shown in Table 11 on page 65; the increase in late 2011 reflects a review of the Commissioner roles and responsibilities.

The deficit in the pension scheme at December 2011 reported under Financial Reporting Standard 17 ("FRS17") is £7,577,179, an increase of £3,032,916 compared to 2010, reflecting a lower discount rate used to present-value the future liabilities of the scheme and the actual investment return for the year being lower than expected. As this valuation is a point-in-time calculation, it can be expected to vary from year to year, without prejudicing the scheme's long-term ability to provide the required benefits. The scheme's actuary carried out a full actuarial valuation of the scheme as at 31 December 2010, for funding calculation purposes,

which showed a funding surplus of £1,145,000. We have also requested the scheme actuary prepare an estimated funding valuation as at 31 December 2011, which showed a shortfall of £529,000, a figure well below that disclosed by the FRS17 valuation of £7,577,179.

FRS17 includes the following requirements:

Pension scheme assets are to be measured using market values.

Pension scheme liabilities are to be discounted at an AA corporate bond rate.

The pension scheme surplus (to the extent it can be recovered) or deficit is recognised in full on the balance sheet in the accounts of the sponsoring employer.

There are extensive disclosures required under FRS17 which are intended to be an aid in comparing pensions costs and liabilities between companies. FRS17 is prepared for accounting purposes whereas an actuarial valuation is carried out to compare the value of the scheme's assets, with a funding target which calculates the value of the benefits that will be paid from the scheme in the future using information about the scheme at the valuation date.

The basis of preparing FRS17 is very prescriptive and, whilst many of the assumptions used are the same as or very similar to those used in the actuarial valuation, there is a major variance in the key assumption of discount rate which makes a substantial difference in the calculation of liabilities and the resultant net funding position of the scheme.

Defined benefit pension scheme

The defined benefit pension scheme is part of the States of Guernsey Superannuation Fund (the "Fund"). The decision was made in 2007 that the Commission could no longer accept the ongoing uncertainties associated with all defined benefit schemes which arise from the increasing levels of life expectancy and the varying investment performance of the funds. It therefore adopted a new defined contribution scheme for staff joining from 1 January 2008 onwards. Those staff who were already members of the defined benefit scheme at that date continue to be eligible for membership of that scheme, although the terms of the scheme are

Financial Information *(continued)*

currently under review by a working party recently established by the States, but under the present arrangements the need remains for proper resourcing. The States has confirmed that in the final resort the claims of the Commission's pensioners and employees would be met from the whole Fund and any shortfall in the scheme would then be met by the States from general revenue.

Fees

When setting fees for 2012, the Commission was conscious of the substantial fee increases in 2010 and 2011 and the Commission's stronger financial position as a result. It also recognised the partial success it had achieved in rebalancing fees between sectors, to the extent that by the end of 2011 only one sector was in deficit

on an absorbed costs basis. In view of these factors, fees have largely remained unchanged for 2012, though an extra fee band was inserted below the uppermost annual fee income band for full fiduciary licences.

GTA University Centre (GTA)

The Commission has continued its relationship with the GTA. It contributed £440,000 in 2011 and has committed to provide funding at the same level in 2012. This will be the final year of the subsidy as the Commission believes that the provision of funding for an external training institution is no longer a core function of a financial services regulator, particularly as its funding of the GTA cannot be isolated for finance sector training.

Fee Legislation

The fees regulations for the banking, fiduciary, insurance and investment sectors were revised with effect from 1 January 2011.

A list of the current regulations prescribing fees payable to the Commission is included below:

- The Financial Services Commission (Fees) Regulations, 2011
- The Protected Cell Companies and Incorporated Cell Companies (Fees for Insurers) Regulations, 2010
- The Criminal Justice (Proceeds of Crime) (Legal Professionals, Accountants and Estate Agents) (Bailiwick of Guernsey) (Amendment) (No.3) Regulations, 2010

- The Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) (Fees) Regulations, 2010

- The Amalgamation and Migration of Companies (Fees Payable to the Guernsey Financial Services Commission) Regulations, 2010

Copies of the fees regulations and a summary of the fees payable are available on the Commission's website at www.gfsc.gg.

Communications and Information Systems

Information systems remain critical to the efficiency of the Commission's operation and during 2011 further enhancements were made to our central regulatory database and its integration with other Commission systems continued, including:

- New functionality to generate penalty fee invoices automatically and to centralise records for the assessment of money laundering/financing of terrorism risks across all licensees and registered businesses
- Further enhancements to our correspondence-tracking systems.

We installed a telephone recording system for the better efficiency and effectiveness of the Commission, and as the security and protection of our information remain key elements in the

development and enhancement of our systems, we instructed an independent contractor to conduct security and penetration tests against our network infrastructure and our website.

We commenced an integrated regulatory reporting system project with a view to providing a secure method for the submission of licensee data to the Commission, and its automated validation and processing. We held meetings with relevant industry bodies seeking their input to the project as representative of one of the key stakeholders and primary users of the system once implemented. We have identified and appointed an external project manager to provide dedicated resource to control the project.

Human Resources

The Commission is keen to support the staff in continuing professional development and training. Internal training has increased considerably over the last year and more training is planned for 2012.

2011 saw a change in senior management with Carl Rosumek being appointed to Director of Investment Business and Jeremy Quick to Director of Insurance in the first quarter of 2011. Philip Nicol-Gent joined the Commission as Director of Fiduciary Services in the second quarter of 2011.

Emma Bailey and Louise Bougourd were appointed to Deputy Directors of Investment Business, Audrey Branch to Deputy Director of Banking, Caroline Bradley to Deputy Director of Insurance and Fiona Crocker to Deputy Director of Fiduciary Services in the second quarter of 2011.

Neville Johnson was appointed Acting Director of Finance and Operations in advance of the retirement of Neville Roberts in April 2012.

Commissioners

In February 2011 Peter Harwood was re-elected as Chairman for a further term of one year and retired from his role at the end of January 2012. Cees Schraauwers was elected as Chairman with effect from February 2012. David Mallett resigned from his role

of Vice Chair at the end of October but remained an ordinary Commissioner until he retired at the end of January. Susie Farnon was appointed Vice Chair in November 2011.

Facilities Management

The lease on Le Marchant House expired in December 2011 and we have now located our business continuity recovery site from those offices to a dedicated area at a service provider's premises in Pitronnerie Road. This will provide the Commission with a long-term business recovery solution.

We conducted a successful advanced business continuity desktop exercise in May 2011 which focused on the content and structure of our plan, ensuring it remains effective and adaptable.

Key Objectives for 2012

- Prepare licensee data for the commencement of the first phase of electronic document submission, allowing licensees to submit a range of documents and notifications, thus providing benefits to both regulated entities and the Commission.
- Continue the implementation of the Commission's human resources strategy to encourage staff development; to encourage movement between divisions; and to facilitate short-term secondments to industry and medium-term secondments to international organisations.
- Participate in the implementation of Commissioner-approved recommendations arising out of the Review.

Independent Auditor's Report to the Commissioners of the Guernsey Financial Services Commission

We have audited the financial statements of the Guernsey Financial Services Commission (the "Commission") for the year ended 31 December 2011 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Commissioners, as a body, in accordance with our Terms of Engagement as detailed in our letter dated 13 November 2009. Our audit work has been undertaken so that we might state to the Commissioners, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

Statement of Commissioners' responsibilities

The Commissioners are required by the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended to prepare financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and United Kingdom Accounting Standards. In preparing these financial statements, the Commissioners are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue to operate.

The Commissioners are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission and to enable them to ensure that the financial statements have been prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

Respective responsibilities of Commissioners and Auditor

As explained more fully above, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and

express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2011 and of its surplus for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended.

KPMG Channel Islands Limited
Chartered Accountants
Guernsey
2 May 2012

It is and shall remain the responsibility of the Commission to ensure that any electronic publication or distribution of the financial statements properly presents the financial information and our report. The Commission shall ensure that financial information on the Commission's website distinguishes clearly between financial information that we have audited and other information and avoids any inappropriate association. The Commission shall retain responsibility for the controls over and the security of the Commission's website and our work shall not extend to any consideration or examination of such matters, which shall be beyond the scope of our audit of the financial statements.

FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2011

	Note	2011 £	2010 £
Income	2		
Fees receivable	1(b)	12,596,240	11,362,101
Interest on deposits with States Treasury and banks	1(c)	122,162	106,676
		12,718,402	11,468,777
Expenses			
Salaries, pension costs, staff recruitment and training		7,917,626	7,671,235
GTA University Centre net gain on pension transfer	7(l)	(540,568)	-
Commissioners' fees		132,250	118,000
Legal and professional fees		971,282	310,143
Premises and equipment, including depreciation	1(e), 1(f), 4, 10	1,411,098	1,058,709
Other operating expenses		689,077	737,928
Other finance costs	1(g), 7(b)	42,756	205,818
Auditor's remuneration		11,236	10,720
		10,634,757	10,112,553
Commission's contribution to expenses of GTA University Centre	9	440,000	440,000
		11,074,757	10,552,553
Surplus for the year		£1,643,645	£916,224

There is no difference between the surplus for the financial year as stated above and its historical cost equivalent.

The notes on pages 44 to 51 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2011

	Note	2011 £	2010 £
Surplus for the year		1,643,645	916,224
Actuarial (loss)/gain	7(e), (k)	(3,436,142)	228,181
Total recognised (loss) / gain for the year		£(1,792,497)	£1,144,405

The notes on pages 44 to 51 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	2011 £	2010 £
Fixed assets			
Tangible assets	4	2,522,976	2,631,530
Current assets			
Debtors	5	499,928	410,473
Deposits with States Treasury	14	20,761	20,565
Cash at bank and in hand	14	7,591,669	5,190,073
		8,112,358	5,621,111
Creditors – amounts falling due within one year	6a	(2,368,753)	(1,265,479)
Net current assets		5,743,605	4,355,632
Creditors – amounts falling due after one year	6b	(39,000)	–
Net assets before post-retirement liability		8,227,581	6,987,162
Post-retirement liability	7(a), (k)	(7,577,179)	(4,544,263)
Net assets		£650,402	£2,442,899
Reserves	8	£650,402	£2,442,899

The financial statements on pages 39 to 51 were approved by the Commissioners and signed on their behalf on 27 April 2012 by:

Cees Schrauwers
Chairman

Susie Farnon
Vice-Chairman

JN van Leuven
Director General

The notes on pages 44 to 51 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 £	2010 £
Reconciliation of surplus of income less expenditure for the year to net cash inflow from operating activities			
Surplus of income less expenditure		1,643,645	916,224
Other finance costs	7(b)	42,756	205,818
Current pension service cost	7(c)	838,586	832,738
Loss on curtailment	7(c)	25,641	-
Gain on settlements	7(c)	(586,209)	-
Contributions made to pension schemes	7(d)	(724,000)	(759,356)
Depreciation on tangible fixed assets	4	412,872	341,345
Interest receivable		(122,162)	(106,676)
Increase in debtors		(89,455)	(16,189)
Increase in creditors		1,142,274	418,333
Net cash inflow from operating activities		£2,583,948	£1,832,237
Return on investments and capital expenditure			
Returns on investments and servicing of finance – interest		122,162	106,676
Capital expenditure	4	(304,318)	(1,612,428)
Increase in cash in the year		£2,401,792	£326,485
Reconciliation of net cash flow to movements in net cash			
Increase in cash in the year	14	2,401,792	326,485
Net cash at 1 January	14	5,210,638	4,884,153
Net cash at 31 December	14	£7,612,430	£5,210,638

The notes on pages 44 to 51 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. Accounting policies

(a) Convention

These financial statements have been prepared in accordance with the historical cost convention and under applicable accounting standards in the UK. The principal accounting policies which the Commissioners have adopted within that convention are set out below. They have been applied consistently in dealing with items which are considered material to the financial statements of the Commission.

(b) Fees receivable

Fees receivable are accounted for on an accruals basis.

(c) Interest

Bank and States Treasury deposit interest is accounted for on an accruals basis.

(d) Investigation and litigation

Costs arising from investigation and litigation are accounted for as expenditure is incurred, whether or not it had been billed at the balance sheet date. Such costs recovered from third parties are accounted for in the year in which they are received. No provision is made for expenditure or recoveries which may arise in future years.

(e) Tangible fixed assets and depreciation

Depreciation on tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of their estimated useful economic lives at the following annual rates:

Leasehold improvements	over the shorter of the term of the lease and the estimated useful economic life of the assets
Office equipment and fittings	25% straight-line
Furniture	10% straight-line
Computer equipment:	
Hardware	33 1/3% straight-line
Software	over the shorter of 10 years and the estimated useful economic life of the assets

(f) Leases

Rental payments made in relation to office accommodation are treated as operating leases and are charged to the income and expenditure account on a straight-line basis over the lease term.

(g) Pensions

Employees of the Commission who generally joined before 1 January 2008 are eligible to be members of the States of Guernsey Superannuation Fund ("the Fund") which is a defined benefit pension scheme funded by contributions from both the member and the employer.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members ("the scheme") was established with effect from 1 January 2004. Regular valuations are prepared by independent professionally qualified actuaries.

In accordance with Financial Reporting Standard 17 - Retirement Benefits ("FRS 17"), the regular service costs of providing retirement benefits to employees during the year, together with any past service costs, are charged to the income and expenditure account in the year.

A debit is included within other finance costs, representing the interest cost on the scheme's liabilities, less the expected return on the scheme's assets, for the year. A credit is included within other finance income where the expected return on the scheme's assets exceeds the interest cost.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet.

Differences between the actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year together with differences arising from changes in assumptions and experience gains and losses arising on the scheme liabilities.

Employees of the Commission joining since 1 January 2008 are generally eligible to be members of the Island Trust Pension Plan ("the DC Plan") which is a defined contribution pension scheme funded by contributions from both the member and the employer. Employer contributions are charged to the income and expenditure account in the year in which they become payable to the DC Plan.

2. Income

Income is derived wholly from continuing activities.

3. Taxation

The Commission is exempt from the provisions of the Income Tax (Guernsey) Law, 1975 as amended.

4. Tangible assets

	Leasehold improvements £	Office equipment, furniture and fittings £	Computer hardware £	Computer software £	Total £
Cost					
At 1 January 2011	1,256,577	372,298	446,798	1,400,709	3,476,382
Additions	22,804	46,074	60,561	174,879	304,318
Disposals	(6,858)	(13,770)	(8,423)	—	(29,051)
At 31 December 2011	1,272,523	404,602	498,936	1,575,588	3,751,649
Depreciation					
At 1 January 2011	20,336	89,306	312,564	422,646	844,852
Charge for the year	57,396	50,368	107,636	197,472	412,872
On disposals	(6,858)	(13,770)	(8,423)	—	(29,051)
At 31 December 2011	70,874	125,904	411,777	620,118	1,228,673
Net book value at 31 December 2010	£1,236,241	£282,992	£134,234	£978,063	£2,631,530
Net book value at 31 December 2011	£1,201,649	£278,698	£87,159	£955,470	£2,522,976

5. Debtors

	2011 £	2010 £
Amount due from GTA University Centre	80,702	25,006
Other debtors	49,985	53,000
Prepayments	369,241	332,467
	£499,928	£410,473

NOTES TO THE FINANCIAL STATEMENTS (continued)

6a. Creditors – amounts falling due within one year

	2011	2010
	£	£
Expense creditors and accruals	1,220,176	341,779
Fees received in advance	1,148,577	923,700
	<u>£2,368,753</u>	<u>£1,265,479</u>

6b. Creditors – amounts falling due after one year

	2011	2010
	£	£
Expense accruals	39,000	-
	<u>£39,000</u>	<u>-</u>

7. Superannuation

(i) FRS17 Disclosure for the Guernsey Financial Services Commission Actuarial Account of the States of Guernsey Superannuation Fund

Employee benefit obligations

This is a defined benefit pension scheme funded by contributions from both the member and the employer which provides retirement benefits based on final pensionable salary. The employer contributions are determined on the basis of independent actuarial advice and are calculated to meet the cost of benefit accrual over the next year of pensionable service.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members was established with effect from 1 January 2004 within the Fund following an instruction from the former States Advisory and Finance Committee. The Actuarial Account is used solely for the purpose of determining the contributions payable to the Fund by the Commission and to avoid the possibility of inappropriate subsidisation of one employer by another.

A full actuarial valuation of the scheme was carried out at 31 December 2010 by the scheme's actuary, which resulted in a funding surplus of £1,145,000. An interim actuarial valuation at 31 December 2011 resulted in a funding deficit of £529,000. The scheme's actuary has also completed valuations annually as at 31 December since 2005, for the purposes of FRS17.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

(a) The amounts recognised in the balance sheet are as follows:

	2011	2010
	£	£
Fair value of scheme assets	13,455,961	14,811,865
Present value of funded obligations	(21,033,140)	(19,356,128)
Net pension liability	<u>£(7,577,179)</u>	<u>£(4,544,263)</u>

The asset and liability values on the FRS17 basis reflect market conditions at the Commission's year-end date and, as point-in-time calculations, can be expected to vary greatly from year to year, without prejudicing the scheme's long-term ability to provide the required benefits.

7. Superannuation (continued)

(b) The amounts recognised in the income and expenditure account are as follows:

	2011 £	2010 £
Interest on obligation	1,040,352	955,312
Expected return on scheme assets	(997,596)	(749,494)
Other finance costs	42,756	205,818
Current service cost	838,586	832,738
Loss on curtailment	25,641	-
Gain on settlement	(586,209)	-
Expense recognised in income and expenditure account	£320,774	£1,038,556
Actual return on scheme assets	£(584,759)	£1,542,554

(c) Changes in the present value of the defined benefit obligation are as follows:

	2011 £	2010 £
Opening defined benefit obligation	(19,356,128)	(16,837,302)
Current service cost	(838,586)	(832,738)
Interest on obligation	(1,040,352)	(955,312)
Contributions by members	(289,855)	(318,054)
Actuarial losses on obligations	(1,853,787)	(564,879)
Loss on curtailments	(25,641)	-
Gain on settlements	586,209	-
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values – general	109,961	152,157
– GTA University Centre	1,675,039	-
Closing defined benefit obligation	(21,033,140)	£(19,356,128)

(d) Changes in the fair value of scheme assets are as follows:

	2011 £	2010 £
Opening fair value of scheme assets	14,811,865	12,344,058
Expected return on scheme assets	997,596	749,494
Actuarial (losses)/gains on scheme assets	(1,582,355)	793,060
Contributions by employer	724,000	759,356
Contributions by members	289,855	318,054
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	(1,785,000)	(152,157)
Closing fair value of scheme assets	£13,455,961	£14,811,865

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Superannuation (continued)

(e) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

	2011	2010
	£	£
Opening amount of losses recognised in STRGL	(4,276,166)	(4,504,347)
Actuarial losses on obligations for the year	(1,853,787)	(564,879)
Actuarial (losses)/gains on scheme assets for the year	(1,582,355)	793,060
Total actuarial (losses)/gains for the year	(3,436,142)	228,181
Cumulative amount of losses recognised in STRGL	(£7,712,308)	(£4,276,166)

- (f) The employer expects to contribute £581,025 to the scheme in the year ended 31 December 2012. Following the actuarial valuation of the scheme as at 31 December 2010, the actuary calculated that the Commission's contribution rate payable to the scheme, to reflect the future service cost, be decreased to 15.6% from 17.8% (the rate recommended by the actuary after the previous actuarial valuation on 31 December 2007). The contribution rate was decreased to 15.6% with effect from 1 January 2012. However, the current service cost, calculated in accordance with FRS17 and representing the cost to the Commission of the benefits accrued to active members of the scheme during the financial year ended 31 December 2011, has been reflected in the Commission's income and expenditure account.

- (g) The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2011	2010
	%	%
Equities	64	69
Gilts	5	4
Corporate bonds	13	15
Property	10	4
Other assets	8	8

This allocation is at the discretion of the States.

- (h) Long-term principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	2011	2010
	%	%
Discount rate as at 31 December	4.7	5.4
Expected return on Fund assets at 31 December	5.7	6.6
Rate of increase in pensionable salaries	4.1	5.1
Rate of increase in deferred pensions	3.3	3.8
Rate of increase in pensions in payment	3.3	3.8

The FRS17 standard refers to a discount rate determined as the current rate of return on high quality corporate bonds (normally taken to be rated as AA) of equivalent currency and term to the Actuarial Account's liabilities.

7. Superannuation (continued)

(i) Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that members aged 60 will live on average until age 89 if they are male and until 90 if female. For members currently aged 45, the assumptions are that if they attain age 60 they will live on average until age 90 if they are male and until 92 if female.

(j) Description of the basis used to determine return on Fund assets

The States adopts a building block approach in determining the expected rate of return on the Fund's assets. The States retains full responsibility for the management of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

(k) Amounts for the current and previous periods are as follows:

	2011 £	2010 £	2009 £	2008 £	2007 £
Defined benefit obligation	21,033,140	19,356,128	16,837,302	11,987,385	11,267,735
Fair value of scheme assets	13,455,961	14,811,865	12,344,058	8,424,935	9,701,884
Deficit in the scheme	(7,577,179)	(4,544,263)	(4,493,244)	(3,562,450)	(1,565,851)
Actuarial (losses) / gains on scheme assets	(1,582,355)	793,060	940,303	(2,660,642)	(113,976)
Actuarial (losses) / gains on defined benefit obligation	(1,853,787)	(564,879)	(2,793,117)	1,086,777	45,858
Actuarial (losses) / gains recognised in STRGL	(£3,436,142)	£228,181	£(1,852,814)	£(1,573,865)	£(68,118)

The States has confirmed that in the final resort the claims of the Commission's pensioners and employees would be met from the whole Fund and any shortfall in the scheme would then be met by the States from General Revenue.

- (l) As a result of the transfer of certain staff, and their pension liabilities, on 31 December 2011, to the employment of the GTA University Centre, a net gain of £540,568 was credited to the income and expenditure account. This includes a payment to the States of Guernsey Superannuation Fund to facilitate a transfer of GTA University Centre pension obligations, on a fully funded basis, partially offset by a contribution by the GTA University Centre. The composition is as follows.

	2011 £	2010 £
Gain on settlement	(586,209)	—
Loss on curtailment	25,641	—
Payment to the States of Guernsey	50,000	—
Contribution by the GTA University Centre	(30,000)	—
GTA University Centre net gain on pension transfer	£(540,568)	—

(ii) FRS17 Disclosure for the Island Trust Pension Plan (the DC Plan)

The net cost of employer contributions to the DC Plan for the year ended 31 December 2011 was £195,338 (2010: £143,370). Contributions of £12,785 were outstanding as at 31 December 2011 (2010: £4,034). No contributions were prepaid as at 31 December 2011 or 2010. Employer contributions are calculated at 12% of pensionable salary and mandatory employee contributions are at a rate of 5% of pensionable salary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Reconciliation of movements in reserves

	2011	2010
	£	£
Reserves brought forward	2,442,899	1,298,494
Surplus of income less expenditure for the year	1,643,645	916,224
Actuarial (loss) / gain on post-retirement liability 7(e)	(3,436,142)	228,181
Reserves carried forward	£650,402	£2,442,899

Reserves are stated after deducting the accumulated pension liability of £7,577,179 (2010: £4,544,263) which equates to the post-retirement liability under FRS17 (see note 7).

9. GTA University Centre

The GTA University Centre (GTA) arranges training for the finance industry and for other industry sectors. The company's staff, excluding those joining since 2007, were employed by the Commission and permanently seconded to the company, up to 31 December 2011. The Commission provided a grant of £440,000 in 2011 (2010: £440,000) to the company in order to meet approximately 50% of its budgeted net operating expenditure, with £470,000 being provided by the States via the Commerce and Employment Department. 2012 will be the final year of the grant.

10. Lease commitments

The Commission leased office accommodation at Glatigny Court, and Le Marchant House during the year. Cessation of the underlease for Le Marchant House occurred on 10 December 2011. The lease for Glatigny Court expires on 16 September 2034 and the rental payable in 2011 under the terms of the leases amount to £679,820 (2010: £414,218)

Commitments to make payments during the next year in respect of an operating lease are as follows:

Land and buildings

	2011	2010
	£	£
Leases which expire up to 1 year after balance sheet date	—	£39,310
Leases which expire between 1 and 5 years after balance sheet date	—	—
Leases which expire more than 5 years after balance sheet date	£646,338	£631,078

11. Investigation and litigation costs

As a consequence of fulfilling its regulatory responsibilities, from time to time the Commission undertakes investigations and is a party to legal actions, the costs of which may be significant. No provision has been made in the financial statements for any future costs in respect of current investigations or legal actions because the nature, complexity and duration of such actions remain uncertain.

In a few cases, some or all of the Commission's investigation and legal costs may be recoverable, although not necessarily in the same financial year as the expenditure is incurred. In such cases the recovery is recognised when received.

12. Related-party transactions

The States appointed Peter Harwood as a Commissioner in August 2004. He was a partner of Ozannes, now Mourant Ozannes, until 31 December 2009. During the year the Commission engaged Mourant Ozannes to provide certain legal and professional services. These were contracted on an arm's-length basis and are not considered to be significant in the context of the business of the parties.

13. Controlling party

In the opinion of the Commissioners there is no controlling party of the Commission, as defined by Financial Reporting Standard No. 8 – Related Party Disclosures, as no party has the ability to direct the financial and operating policies of the Commission with a view to gaining economic benefits from their direction.

14. Analysis of net cash

	At 1 January 2011 £	Cash flow £	At 31 December 2011 £
Deposits with States Treasury	20,565	196	20,761
Cash at bank and in hand	5,190,073	2,401,596	7,591,669
	<u>£5,210,638</u>	<u>£2,401,792</u>	<u>£7,612,430</u>

STATISTICAL DATA

Banking Division

Table 1. Licences and deposits at the year end

End	Banks licensed	Deposits £mns	Annual % change in deposits
1990	72	15,476	19.1
1991	72	16,250	5.0
1992	76	27,442	68.9
1993	75	37,482	36.6
1994	73	42,191	12.6
1995	73	46,855	11.1
1996	72	43,324	-7.5
1997	78	49,357	13.9
1998	78	52,922	7.2
1999	79	57,059	7.8
2000	77	68,474	20.0
2001	72	77,211	12.8
2002	67	71,943	-6.8
2003	61	69,703	-3.1
2004	54	70,426	1.0
2005	50	80,728	14.6
2006	50	92,349	14.4
2007	47	119,170	29.0
2008	48	157,009	31.8
2009	44	177,415	-25.2
2010	38	111,030	-5.4
2011	35	107,545	-3.1

Table 2. Assets and liabilities of licensed banks at the year end

	2005 Total £mns	2006 Total £mns	2007 Total £mns	2008 Total £mns	2009 Total £mns	2010 Total £mns	2011 Total £mns
Liabilities							
Tier 1 capital*	1,385	1,491	1,570	1,981	2,093	2,288	2,182
Tier 2 capital**	29	51	52	49	166	52	28
Deposits by							
British Isles banks and financial corporations	11,845	16,681	20,306	20,866	23,130	25,087	23,336
Other banks	35,265	42,757	59,582	87,490	53,827	44,966	45,199
British Isles public sector	36	48	43	49	39	30	29
Companies, persons, other	32,191	31,977	38,138	45,898	37,706	38,250	36,102
Other liabilities	6,731	7,579	12,209	22,785	18,851	23,455	26,710
Total liabilities	87,482	100,584	131,900	179,117	135,812	134,128	133,586
Assets							
Loans, advances and market loans with:							
Banks and financial institutions	59,731	71,177	86,738	111,222	78,925	79,424	79,530
British Isles public sector	10	10	10	13	28	25	29
Companies, persons, other	6,067	5,931	17,647	27,111	23,673	25,656	27,278
Government securities	6,965	5,127	3,694	3,179	2,092	2,964	1,858
Company shares/securities	10,337	7,085	9,894	8,580	8,913	10,709	11,645
CDs*** and all other assets	4,372	11,254	13,917	29,012	22,181	15,350	13,245
Total assets	87,482	100,584	131,900	179,117	135,812	134,128	133,586

*Paid-up share capital and disclosed reserves

**Undisclosed reserves, revaluation reserves, general provisions, debt/equity instruments and subordinated debts

***CDs plus FRNs and commercial paper

Figure 1. Asset at the year end

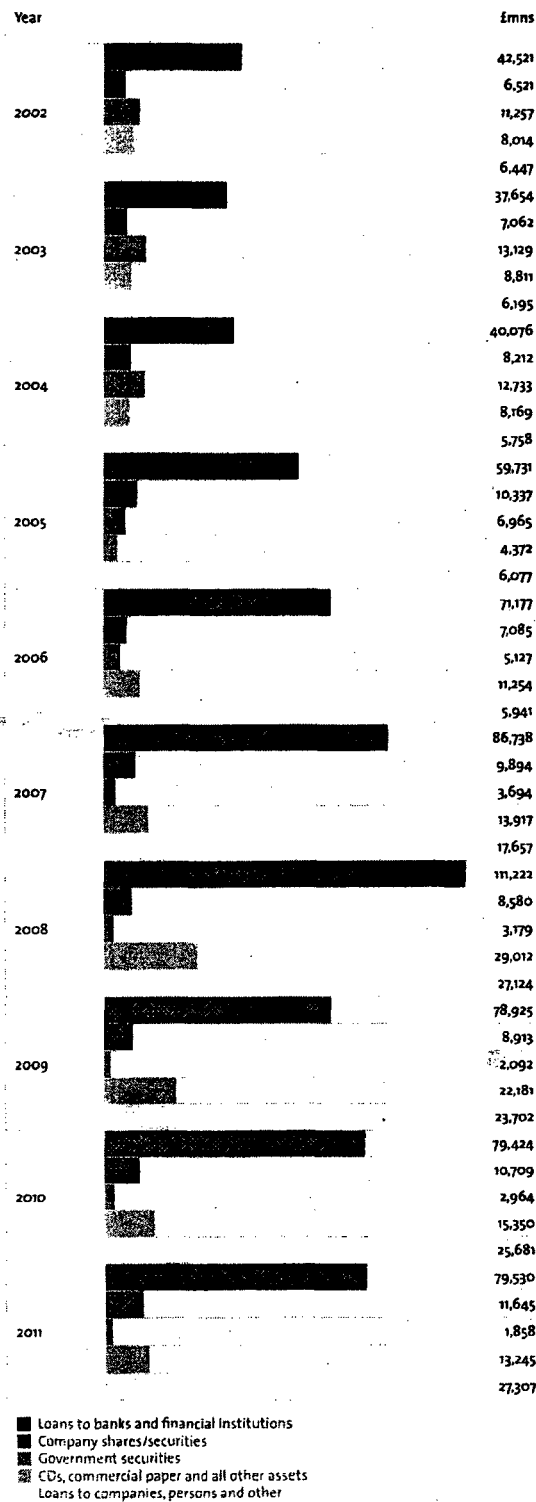


Figure 2. Analysis of deposits with Guernsey banks by currency at end December 2011

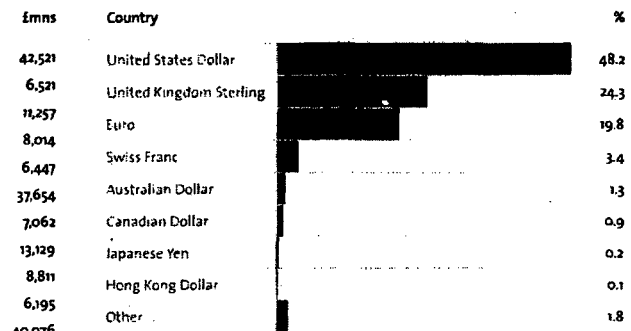


Figure 3. Selected loans and advances since 2008

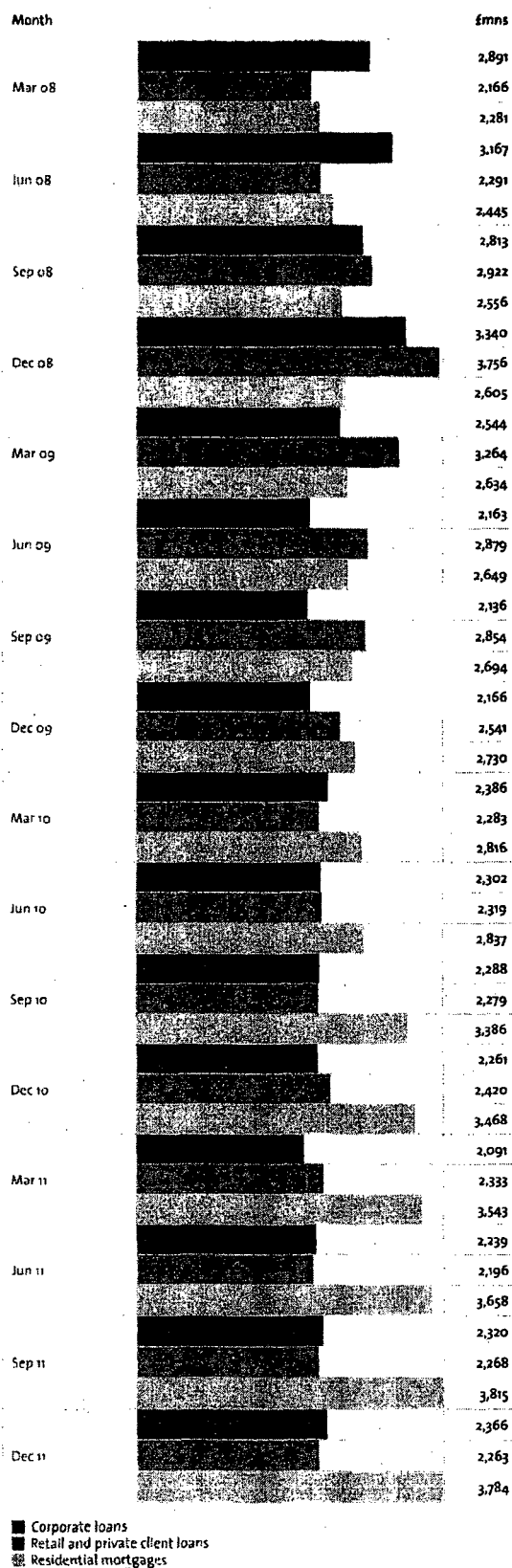


Figure 4. Disposition of bank assets at December 2011

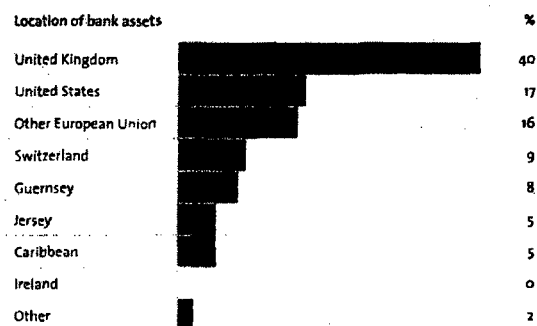


Figure 5. Source of bank deposits at December 2011

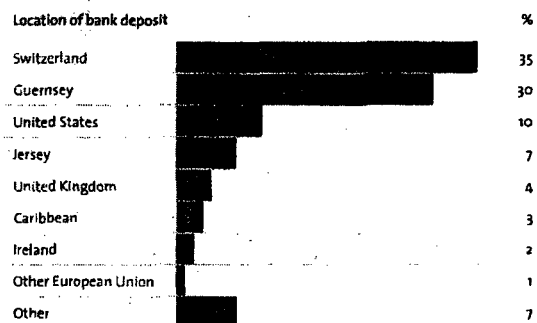


Figure 6. Total Tier 1 capital at the year end

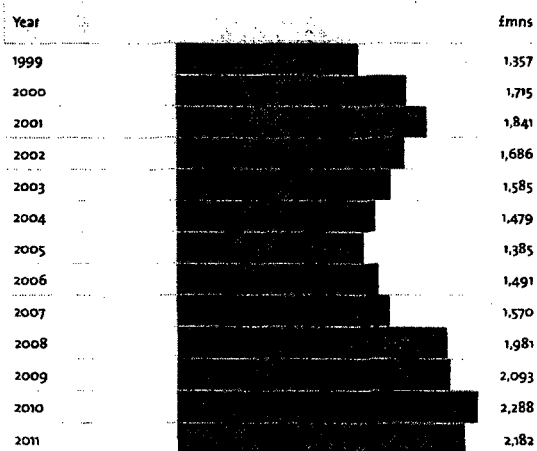


Figure 7. Country of origin of Guernsey-licensed banks – subsidiaries at end 2011

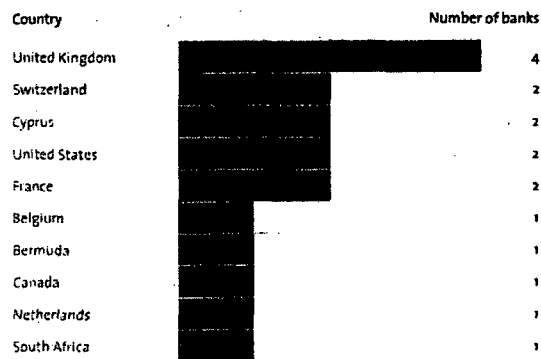
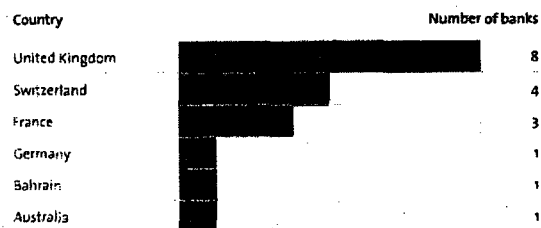


Figure 8. Country of origin of Guernsey-licensed banks – branches at end 2011



Insurance Division

Figure 9. December 2011: Last 12 months, number of licences issued by type of licence

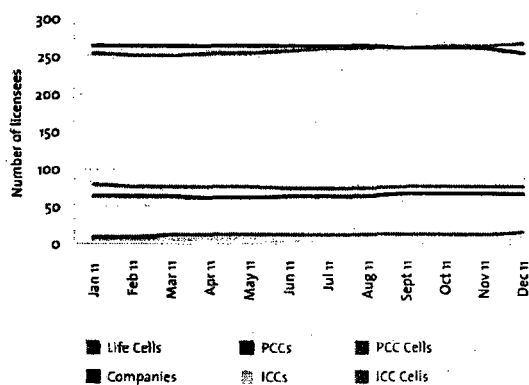


Figure 11. December 2011: 12-month rolling summary of licences surrendered

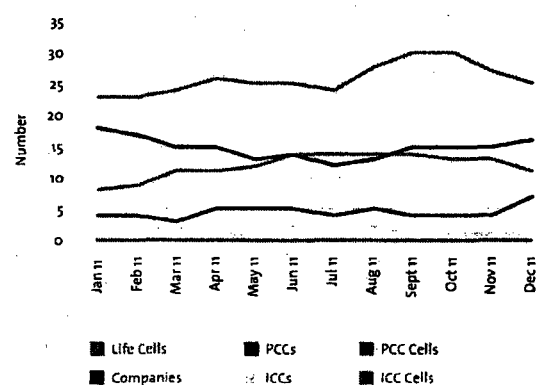


Figure 10. December 2011: 12-month rolling summary of licences issued

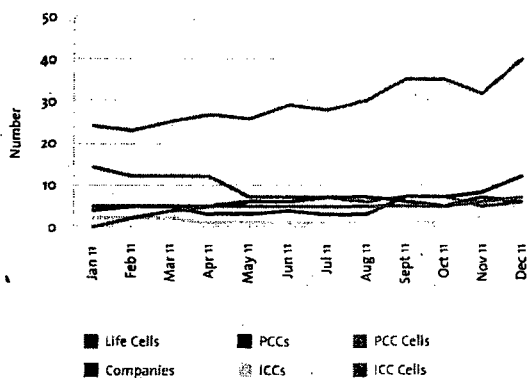


Figure 12. Gross assets



Figure 13. Net worth

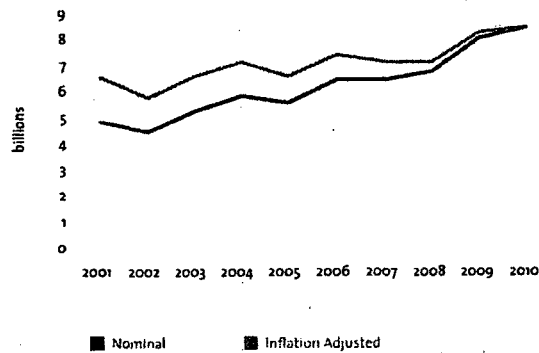


Figure 15. 2011 new licences by parent location

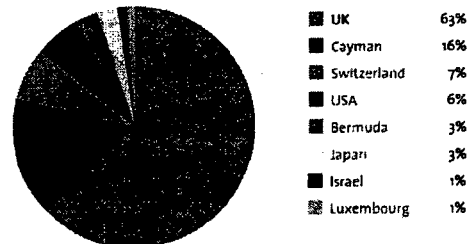


Figure 14. Premium

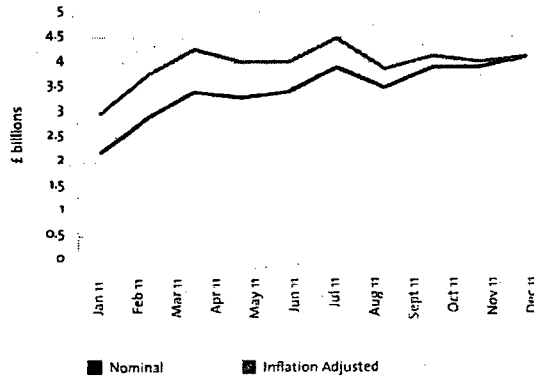


Table 3. New collective investment funds during the year

	2010	2011
Open-ended funds – authorised/registered	27	19
Open-ended funds – new classes approved	13	125
Closed-ended funds – authorised/registered	62	75

Table 4. Open-ended funds at the year end

	2010	2011	% change
Number of funds	262	244	-6.8
Number of investment pools	1722	1545	-10.2
Value of assets (£bns)	57.95	55.35	-4.5
Net new investment over year (£mns)	5,157	5,193	0.6
Number of registered holders ('000s)	60,516	53,313	-11.9
Stock exchange-listed	157	144	-8.2

Guernsey-authorised open-ended funds are funds in which shares/units are offered for sale throughout their life and which investors are entitled to redeem on demand subject to any applicable notice period.

Figure 17. Open-ended funds – analysis by investment style

Investment Style	
Equity / Securities	95
Fund of Hedge Fund	64
Debt	34
Other	32
Real Property	28
Derivatives	24
Hedge Fund	24
Money Market / Cash	21
Emerging Markets	15
Balanced	9
Managed Currency	9
Private Equity	4
Venture Capital	1

Figure 18. Nationality of sponsors/joint sponsors of Guernsey open-ended funds at year end 2011

Country	
Guernsey	83
United Kingdom	77
Switzerland	38
South Africa	8
United States	7
British Virgin Islands	6
France	6
Australia	4
Cayman Islands	4
Luxembourg	4
New Zealand	4
Canada	3
Bahamas	3
Kuwait	2
Austria	1
Belgium	1
Hong Kong	1
Japan	1
Jersey	1
The State of Abu Dhabi	1
Turkey	1

Note: some funds may have more than one sponsor

Figure 16. Open-ended funds – geographic breakdown of investments

Country	%
Guernsey	23
United Kingdom	21
Cayman Islands	14
USA	9
Other	8
Luxembourg	4
Ireland	3
Bermuda	2
Canada	2
Japan	2
Russia	2
Australia	1
British Virgin Islands	1
China	1
Denmark	1
France	1
Germany	1
Jersey	1
Netherlands	1
Switzerland	1
Turkey	1

Figure 19. Nationality of sponsors/joint sponsors of Guernsey closed-ended funds at year end 2011

Country	
United Kingdom	301
Guernsey	88
Switzerland	60
United States	43
Germany	18
Netherlands	14
Norway	12
France	11
Cayman Islands	10
Finland	9
South Africa	6
Sweden	5
China	4
Turkey	4
British Virgin Islands	3
Greece	3
Italy	3
Japan	3
Spain	3
Czech Republic	2
Estonia	2
Hungary	2
Israel	2
Luxembourg	2
Portugal	2
Republic of Ireland	2
Australia	1
Bahamas	1
Belgium	1
Canada	1
Curaçao	1
Cyprus	1
Dubai	1
Hong Kong	1
Iceland	1
Isle of Man	1
Jersey	1
Kuwait	1
Lebanon	1
Netherlands Antilles	1
Russia	1
Singapore	1
United Arab Emirates	1

Note: Some funds may have more than one sponsor

Table 5. Closed-ended funds at the year end

	2010	2011	% change
Number of funds	599	610	1.8
Value of assets (\$bns)	109.5	119.11	8.8
Number of registered holders ('000s)	7035	6857	-2.5
Stock exchange-listed	229	217	-5.2

Guernsey-approved closed-ended funds normally have a fixed capital issued once and for all and investors have no absolute entitlement to redeem their shares/units.

Figure 20. Closed-ended funds – geographic breakdown of investments

Country	%
United Kingdom	21
USA	13
Guernsey	10
Cayman Islands	7
Germany	6
Luxembourg	6
Other	6
China	2
Cyprus	2
France	2
Netherlands	2
Russia	2
Sweden	2
Switzerland	2
Australia	1
Bermuda	1
Brazil	1
British Virgin Islands	1
Canada	1
Denmark	1
Egypt	1
Finland	1
Ireland	1
Italy	1
Japan	1
Jersey	1
Malta	1
Mauritius	1
Norway	1
Poland	1
Spain	1

Figure 21. Closed-ended funds – analysis by investment style

Investment	
Private Equity	302
Real Property	125
Equity / Securities	70
Other	49
Debt	45
Venture Capital	38
Infrastructure	22
Fund of Hedge Fund	17
Derivatives	16
Emerging Markets	11
Hedge Fund	8
Balanced	2
Money Market / Cash	2

Figure 22. Total funds authorised and registered at the year end

Year	Number of funds
2004	516
2005	584
2006	724
2007	851
2008	919
2009	884
2010	861
2011	854

Figure 23. Total Guernsey funds under management at the year end

Year	Number of funds
2004	56,567
2005	79,334
2006	105,139
2007	145,616
2008	155,046
2009	136,079
2010	167,453
2011	174,473

Table 6. Non-Guernsey schemes at year end

	2010	2011	% change
Number of funds	332	308	-7.2%
Value of assets (£mns)	90.00	87.08	-3.3%
Stock exchange-listed	41	35	-14.6%

These open-ended schemes incorporated/established in other jurisdictions are not Guernsey-authorised/registered. However, Guernsey institutions licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 provide management/administration or custody services to such schemes with specific approval from the Commission.

Figure 24. Number of institutions licensed under the Protection of Investors Law at year end

Year	Number of institutions
2004	446
2005	486
2006	554
2007	636
2008	680
2009	661
2010	652
2011	654

Enforcement Statistics

Introduction

The Commission introduced its Enforcement Policy, describing the manner in which it would approach the use of its enforcement powers and sanctions, in cases of regulatory non-compliance. In 2011, a number of regulatory matters were resolved through agreement with the subject concerned, while in a smaller number of cases the following regulatory sanctions were imposed, either with the agreement of the subject or decided upon by the Commission:

Warnings	6
Conditions imposed on licence, authorisation, registration or consent	9
Refusal to grant request to vary or remove a prohibition order	1
Requirement to provide information, documents or produce a report concerning identified regulatory areas of concern	5

Policy and International Affairs Division

Table 7. International Monetary Fund ("IMF") Coordinated Portfolio Investment Survey 2010

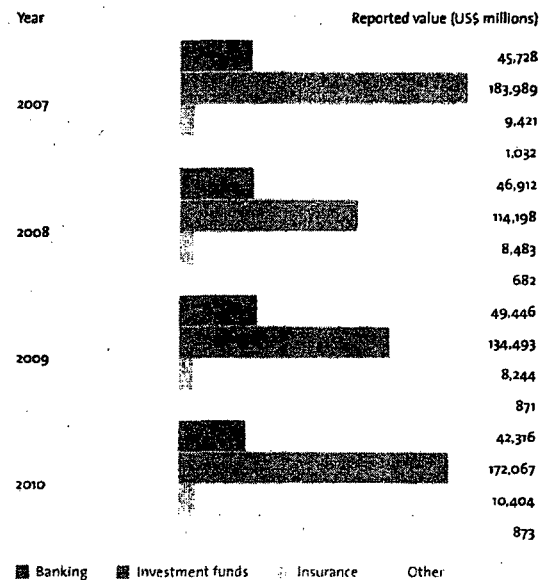
Cross-border securities* owned by institutions in the Bailiwick of Guernsey at end 2010 (US\$ millions)

Sector	Equities	Short-term debt	Long-term debt	Total	Year
Banks	644	19,870	21,802	42,316	2007
Domestic insurers	—	—	32	32	
Life insurers	4,973	5	1,920	6,898	
Insurance managers and captives	160	2,454	859	3,473	
Insurance intermediaries	—	—	—	0	
Open and closed-ended collective investment funds	126,132	5,002	40,933	172,067	2008
States of Guernsey	242	209	423	874	
Total	132,151	27,540	65,969	225,660	2009

*The IMF Coordinated Portfolio Investment Survey includes information on cross-border holdings of equities, short-term debt and long-term debt. It does not include other assets, such as cash, derivatives, Islamic investments or property.

Figure 25. International Monetary Fund ("IMF") Coordinated Portfolio Investment Survey

Cross-border securities by business sector at the year end



Finance and Operations Division

Table 8. Income and expenses by sector

	Banking		Fiduciary		Insurance		Investment business		Non regulated financial services businesses and prescribed businesses		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Number of regulated & registered entities	35	38	183	187	756	746	1,816	1,845	153	144	2,943	2,960
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fee income	1,880	1,533	2,347	1,976	2,838	2,483	5,368	5,271	163	99	12,596	11,362
Direct costs	(1,286)	(1,403)	(1,431)	(1,248)	(1,857)	(1,806)	(2,693)	(2,610)	(140)	(60)	(7,407)	(3,127)
Interest income	18	13	22	17	28	24	54	53	0	0	122	107
Common costs	(480)	(496)	(575)	(573)	(766)	(731)	(1,322)	(1,206)	(84)	(40)	(3,227)	(2,986)
Surplus/(deficit)	132	(353)	363	232	243	(30)	1,407	1,508	(61)	(1)	2,084	1,356
Contribution to costs of GTA University Centre											(440)	(440)
Surplus, net of GTA contribution											1,644	916

Table 9. Salaries and related costs

	2011	2010
	£'000	£'000
Salaries	5,944	5,928
Consultants/ secondees	118	76
Pension costs	1,005	875
Social insurance, permanent health and medical insurance	567	548
Recruitment and training	283	244
Total	7,917	7,671

Table 11. Commissioners' fees (increase effective October 2011)

	2011	2010
	£'000	£'000
Annual fees		
Chairman of Commissioners	35	22
Non-resident Commissioners	30	22
Resident Commissioners	25	15

Table 10. Number of staff by salary band

Annual salary	2011	2010
£0- £39,999 p.a.	30	36
£40,000 - £79,999 p.a.	53	52
£80,000 - £119,999 p.a.	10	10
£120,000 p.a. and above	9	7
	102	105

APPENDIX

Functions, structure and corporate governance and other control systems of the Commission

Functions of the Commission

The Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law) established the Commission with both general and statutory functions. The general functions include the taking of "such steps as the Commission considers necessary or expedient for the effective supervision of finance business in the Bailiwick". The statutory functions include those prescribed under or arising pursuant to the following regulatory laws:

- the Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended;
- the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended;
- the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 as amended;
- the Insurance Business (Bailiwick of Guernsey) Law, 2002 as amended;
- the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 as amended.

Relationship with the States

The States Policy Council is responsible for international financial matters and for establishing the policy framework for financial regulation, including the government's relationship with, and reporting lines for, the Commission. The Commission Law states that the Commission shall issue its audited financial statements and the two reports, referred to later in this appendix, annually to the Policy Council. The Policy Council is also responsible for the administration of the Control of Borrowing Ordinances. Individual officials of the Commission act for the Policy Council in matters requiring consent under the Ordinances.

The Commissioners

The activities of the Commission's executive are overseen by the members of the Commission (Commissioners). The Commission Law provides that the Commission shall consist of a minimum of five members and a maximum of seven members elected by the States from persons nominated by the Policy Council and appearing to it to be persons having knowledge, qualifications or experience appropriate to the development and supervision of finance business in the Bailiwick. The Chairman is appointed for a period of one year from amongst the Commissioners and is elected by the States following nomination by the Policy Council. The Vice-Chairman is appointed for a period of one year by the Commissioners. Each member is appointed as a Commissioner for a period not exceeding three years. A member whose term of office has come to an end is eligible for re-election. The Chairman and Vice-Chairman are also eligible for re-election to their positions. A member of the Commission must retire on reaching the age of 72 years.

The Commission currently has six Commissioners: Cees Schrauwers, Susie Farnon, Howard Flight, Alex Rodger, Richard Hobbs and Bob Moore. A brief résumé for each Commissioner is provided on pages 4 and 5 of this report. All of the Commissioners are non-executive – three reside in Guernsey, with the remainder living in the UK.

There were 13 meetings of the Commissioners in 2011. The attendance of the individual Commissioners at these meetings was as follows: Peter Harwood 13, David Mallett 11, Susie Farnon 13, Howard Flight 11, Alex Rodger 13, Cees Schrauwers 12. Prior to each meeting, Commissioners are provided with a full information pack to support the meeting's agenda.

An induction programme is in place for new Commissioners. The Commissioners periodically consider their roles, responsibilities and accountabilities.

The Commission Law also makes provision for the appointment of such officers and servants as are necessary for carrying out the Commission's functions and for the most senior officer to have the title of Director General.

Delegation of functions to executive staff

The Commissioners have delegated certain of their statutory functions to the executive staff of the Commission. These statutory functions are exercised by the executives both jointly and severally. All statutory functions of the Commission may be delegated to the executives except:

- the power of the Commissioners to delegate functions;
- the Commissioners' duty to make an annual report on the Commission's activities during the previous year to the Policy Council;
- any statutory functions which:
 - (i) require the Commissioners to consider representations concerning a decision which they propose to take; or
 - (ii) empower the Commission to cancel, revoke, suspend or withdraw a licence, consent, registration, permission or authorisation (except where the cancellation, revocation, suspension or withdrawal is done with the consent of the person who is, or who is acting on behalf of, the holder of the licence, consent, registration, permission or authorisation); or
 - (iii) empower the Commission to petition for the winding-up of a body corporate.

Annual report and financial statements

The Commission must, as soon as possible in each year, make a report to the Policy Council on its activities during the preceding year. The Chief Minister shall, as soon as possible, submit that report for consideration by the States.

The Commission Law also provides that the Commission shall:

- (a) keep proper accounts and proper records in relation to those accounts; and
- (b) prepare in respect of each year a statement of accounts giving a true and fair view of the state of affairs of the Commission; and that the accounts of the Commission shall be:
 - (a) audited by auditors appointed by the States; and
 - (b) laid before the States.

The Commission includes a copy of its audited financial statements in the annual report to the Policy Council referred to above.

Report on internal control and corporate governance

Under the Commission Law, the Commission must also review in each year, by the appointment of appropriately qualified and independent professional persons or otherwise:

- (a) the adequacy and application of the Commission's systems of internal control;
- (b) the selection and application of the Commission's accounting policies and accounting procedures;

(c) the effective, efficient and economical management of the Commission's assets and resources; and

(d) the Commission's compliance with such generally accepted principles of good corporate governance as it is reasonable to regard as being applicable to the Commission.

The Commissioners are required to satisfy themselves in connection with the conclusions of each review and provide the Policy Council with a separate annual report on the matters covered by it.

The Commissioners are responsible for overseeing the Commission's corporate governance regime and for monitoring the effectiveness of management's systems of internal control. These systems are subject to regular review by management and address the risks to which the Commission is exposed. The Commission has an ongoing process for identifying, evaluating and managing operational risks (including regulatory and financial risks). In this connection, the Commission takes account of the guidance contained in the UK Code on Corporate Governance.

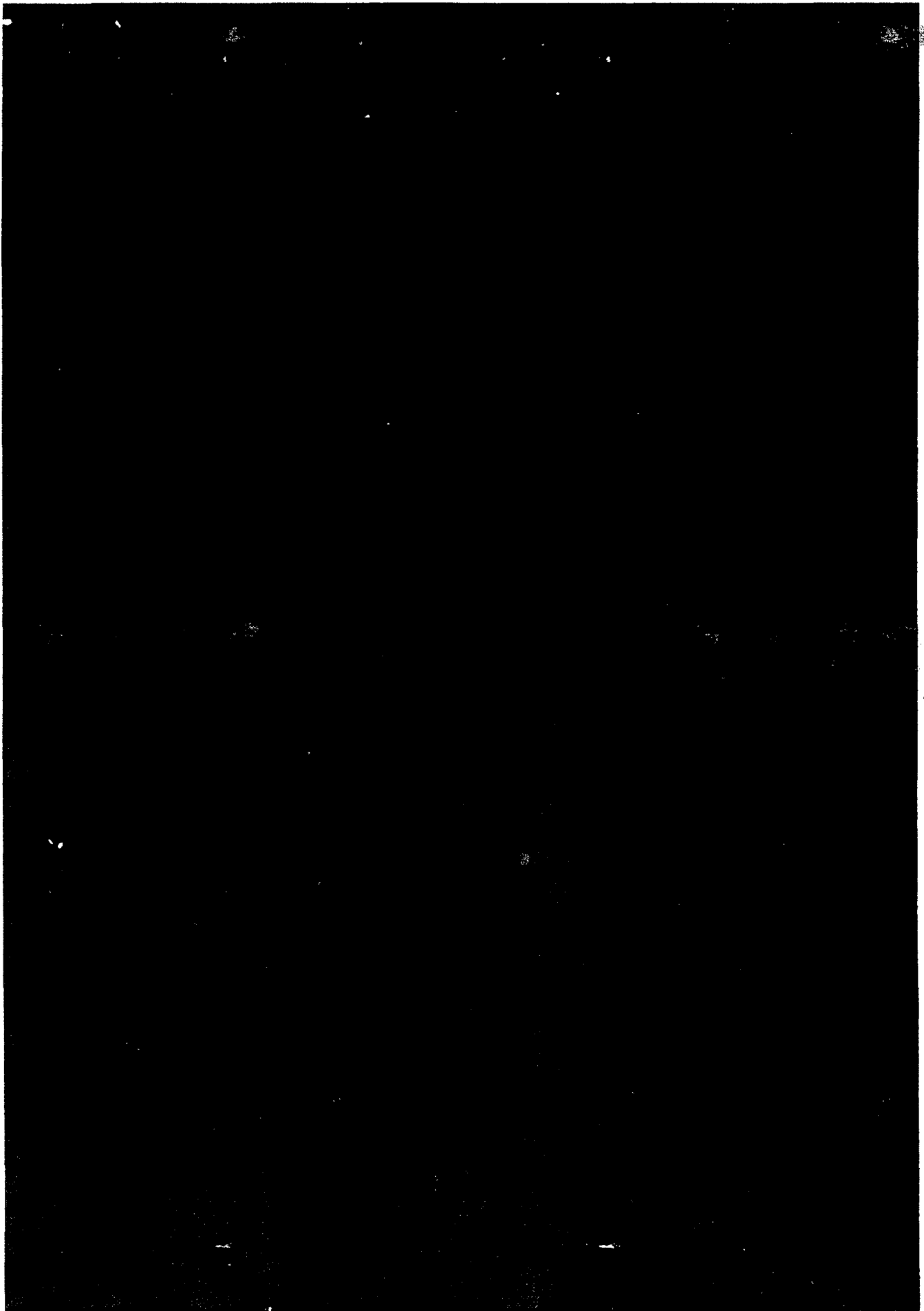
In accordance with the Commission Law, the Commissioners have reviewed the Commission's approach to risk management policies and processes. The annual report required by the law on internal control and corporate governance has been provided by the Commission to the Policy Council.

Audit and Risk Committee

The Commission's Audit and Risk Committee, which comprises Alex Rodger and Richard Hobbs (who was appointed in January 2012) and is chaired by Susie Farnon, covers oversight of the management of risk – it reviews corporate governance and the systems of internal control and makes reports routinely to meetings of the Commissioners as a whole. Meetings are usually attended by the Director General, the Head of Finance and Operations and the Commission Secretary (who is the committee's secretary). The committee met twice in 2011. The attendance of the individual members at these meetings was as follows: David Mallett (who retired in November 2011) 2, Susie Farnon 2, Alex Rodger 2.

Review systems

Rather than appoint its own internal auditor to monitor the Commission's non-regulatory internal audit standards, the Commission has retained specialist external consultants to ensure that the Commission is up to date with current expectations. The corporate governance standards of the Commission have been reviewed by the Audit and Risk Committee and by the Commission's officers. The Commission is satisfied that it meets expectations in connection with internal audit and corporate governance. The International Monetary Fund ("IMF") undertook an evaluation of the Bailiwick with International regulatory and supervisory standard in 2010 under its Financial Stability Assessment Program. The Commission and the other authorities in Guernsey were found by the IMF to have a high level of compliance with these standards.





2 November 2011

Global adherence to regulatory and supervisory standards on international cooperation and information exchange

Public Statement

The Financial Stability Board (FSB) commenced in March 2010 an initiative to encourage the adherence by all countries and jurisdictions to regulatory and supervisory standards on international cooperation and information exchange.^{1,2} The initiative responded to a call by the G20 Leaders at their April 2009 Summit in London for the FSB to develop a toolbox of measures to promote adherence to prudential standards and cooperation with jurisdictions.

To recognise the progress that most jurisdictions evaluated by the FSB under the current initiative have made towards implementing international cooperation and information exchange standards, and to incentivise improvements by those jurisdictions not cooperating fully, the FSB is publishing the names of all jurisdictions evaluated. The list includes those identified as non-cooperative jurisdictions.

Objective of the initiative

The focus of the FSB's current initiative is on adherence to internationally agreed information exchange and cooperation standards in the areas of banking supervision, insurance supervision and securities regulation.³ Cooperation and information exchange amongst financial supervisors and regulators are essential for effective oversight in an integrated financial system. Financial markets are global in scope and, therefore, weaknesses in international cooperation and information exchange can undermine the efforts of regulatory and supervisory authorities to ensure that laws and regulations are followed and that the

¹ See FSB, "Promoting global adherence to international cooperation and information exchange standards", 10 March 2010, available at: http://www.financialstabilityboard.org/publications/r_100310.pdf and FSB, "Promoting global adherence to regulatory and supervisory standards on international cooperation and information exchange: Progress report", 29 April 2011, available at: http://www.financialstabilityboard.org/publications/r_110429.pdf

² Although member international bodies of the FSB, including the International Monetary Fund (IMF), World Bank and International Association of Insurance Supervisors (IAIS), support and contribute to the FSB's efforts to promote global adherence to international standards, member international bodies' legal frameworks and policies preclude their participation in decisions regarding the listing of non-cooperative jurisdictions and the adoption of negative measures that are not in accordance with those frameworks and policies.

³ For the BCBS *Core Principles for Effective Banking Supervision*, principles 3, 21, 24 and 25 of the 2006 version. For the IAIS *Insurance Core Principles*, principles 5, 6, 7 and 17 of the 2003 version. For the IOSCO *Objectives and Principles of Securities Regulation*, principles 8, 9, 10, 11, 12 and 13 of the 1998 version. For a description of the relevant information exchange and cooperation standards, see Annex A.

global operations of the financial institutions, for which they have responsibility, are adequately supervised.

The current initiative is part of a framework that the FSB has put in place for encouraging stronger adherence to international standards more broadly.⁴ In this framework, FSB member jurisdictions have committed to lead by example. They have committed to implement international financial standards, participate in international assessments, and disclose their degree of adherence. In addition, FSB members undergo periodic peer reviews focused on the implementation and effectiveness of international financial standards and of policies agreed within the FSB.

Jurisdictions evaluated

While the ultimate objective of the FSB's initiative is to promote implementation by all jurisdictions, the initial focus is on the adherence of FSB members and other jurisdictions that rank highly in financial importance. Under the initiative, the FSB prioritised a pool of about 60 jurisdictions for evaluation, including all 24 FSB member jurisdictions. In setting priorities, the FSB sought a balance between the desirability of evaluating a large number of jurisdictions and the feasibility of completing only a limited number of evaluations in 2010-11.

The non-FSB jurisdictions prioritised for evaluation were those that ranked highly based on a combination of economic and financial indicators, as described in Annex B. The ranking indicates the relative prioritisation, for the purpose of this initiative, of each jurisdiction out of more than 200 territories globally; the FSB's ranking was not designed to identify jurisdictions with systemically important financial systems.⁵

The FSB has to date evaluated the jurisdictions listed in Tables 1 to 3 to determine whether they demonstrate sufficiently strong adherence to regulatory and supervisory standards on international cooperation and information exchange. Adherence was evaluated by the FSB based on the latest available detailed assessment report underlying the IMF-World Bank Report on the Observance of Standards and Codes (ROSC), as well as on the signatory status to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU).

⁴ See FSB, "Framework for Strengthening Adherence to International Standards", 9 January 2010, available at: http://www.financialstabilityboard.org/publications/r_100109a.pdf

⁵ For an identification of jurisdictions with systemically important financial sectors, see International Monetary Fund, "Integrating Stability Assessments under the Financial Sector Assessment Program into Article IV Surveillance", 27 August 2010, available at: <http://www.imf.org/external/np/pp/eng/2010/082710.pdf>

Jurisdictions demonstrating sufficiently strong adherence

The following jurisdictions were assessed in their most recent IMF-World Bank detailed assessment reports as compliant or largely compliant with all, or all except one, of the relevant cooperation and information exchange standards.⁶ Therefore, these jurisdictions demonstrate sufficiently strong adherence to those standards. The IMF-World Bank assessments were conducted against the versions of the standards and assessment methodologies in force at the time of the assessments. Consequently, in some cases, older versions of these standards and methodologies were used. These assessments will be updated by the IMF and World Bank over time.

Table 1

Jurisdictions demonstrating sufficiently strong adherence*				
Australia	Cyprus	Iceland	Luxembourg	South Africa
Austria	Denmark	Ireland	Malta	Spain
Bahrain	Finland	Isle of Man	Mexico	Sweden
Belgium	France	Italy	Netherlands	Switzerland
Bermuda	Germany	Japan	New Zealand	Thailand
Brazil	Gibraltar	Jersey	Norway	UAE
British Virgin Islands	Guernsey	Korea	Portugal	United Kingdom
Canada	Hong Kong SAR	Liechtenstein	Singapore	United States
Cayman Islands				

* FSB member jurisdictions are indicated in bold.

⁶ The acceptance by IOSCO of a jurisdiction as a signatory to the MMoU, is evidence of that jurisdiction's adherence to standards of cooperation and information exchange that, for the purpose of the FSB's current initiative, is considered to be of strength equivalent to an assessment of full compliance with the relevant securities standards through an IMF-World Bank assessment. The FSB encourages all jurisdictions to take the steps necessary to meet the standards set by the IOSCO MMoU.

Jurisdictions taking the actions recommended by the FSB and/or making material progress towards demonstrating sufficiently strong adherence

Some of the following jurisdictions are in the process of implementing reforms to strengthen their adherence. Others have old assessments that indicated weaknesses in international cooperation and information exchange, or have never been assessed, and have requested new assessments by the IMF and World Bank. The FSB is working with several authorities to develop a plan for implementing the actions recommended by the IMF-World Bank team in the latest detailed assessment report.

Table 2

Jurisdictions taking the actions recommended by the FSB and/or making material progress toward demonstrating sufficiently strong adherence*

ROSC underway [#]		FSB evaluation team in dialogue (and, where indicated, ROSC underway or requested) [#]		ROSC requested or planned	
Argentina	not previously assessed	Greece	(insurance)	Bahamas	(securities)
Chile	(banking, securities)	Mauritius ⁺	(banking)	Barbados	(banking, securities)
China	not previously assessed	Russia ⁺	(banking, insurance, securities)	Colombia	(banking, securities)
Czech Republic	(banking)	Turkey ⁺	(banking)	Hungary	(banking)
India	insurance not previously assessed			Malaysia	not previously assessed
Indonesia	not previously assessed				
Israel	(banking, insurance)				
Poland	(banking, insurance)				
Saudi Arabia	insurance not previously assessed				

Areas of weakness identified in previous IMF-World Bank assessments are indicated in parentheses. Banking = BCBS *Core Principles for Effective Banking Supervision* (principles 3, 21, 24, and/or 25 of the 2006 version); insurance = IAIS *Insurance Core Principles* (principles 5, 6, 7 and/or 17 of the 2003 version); securities = IOSCO *Objectives and Principles of Securities Regulation* (principles 8, 9, 10, 11, 12 and/or 13 of the 1998 version).

* FSB member jurisdictions are indicated in bold. # Includes jurisdictions where ROSCs have been recently completed and for which a copy of the detailed assessment reports is not yet available to the FSB. + ROSC underway or requested.

Non-cooperative jurisdictions

The FSB has determined the following jurisdictions to be non-cooperative. Jurisdictions are identified as non-cooperative if they are participating in the FSB's evaluation process but showing insufficient progress to address weak compliance; not cooperating satisfactorily with the FSB's process for strengthening adherence (for example, declining to share with the FSB the latest IMF-World Bank detailed assessment reports on the observance of the relevant standards); or not engaged in dialogue with the FSB. The FSB continues to work with these jurisdictions to encourage their adherence to regulatory and supervisory standards on international cooperation and information exchange.

Table 3

Non-cooperative jurisdictions		
Participating in the evaluation process but showing insufficient progress to address weak compliance		
<i>no jurisdictions at present</i>		
Not cooperating satisfactorily with the FSB's process for strengthening adherence		
<i>no jurisdictions at present</i>		
Not engaged in dialogue with the FSB		
Libya (former regime) ⁺	never assessed by IMF-World Bank	Venezuela never assessed by IMF-World Bank

+ The determination of Libya as a non-cooperative jurisdiction was made on the basis of the failure of the former regime to enter into dialogue. The FSB will seek a dialogue with the new authorities, which could lead the FSB to re-evaluate Libya and move it to another category.

Annex A

**Regulatory and supervisory standards on
international cooperation and information exchange**

There are three key standards in the financial regulatory and supervisory area: the BCBS Core Principles for Effective Banking Supervision, the IAIS Insurance Core Principles, and the IOSCO Objectives and Principles of Securities Regulation. The FSB in consultation with the BCBS, IAIS and IOSCO identified, within each of these standards, principles concerning international cooperation and information exchange. This built on earlier work by the Financial Stability Forum to identify a list of standards for priority implementation.⁷

The principles listed below were selected based on two criteria: principles that relate directly to cooperation and information exchange, and principles that relate to essential supervisory powers and practices, without which effective cooperation and information exchange cannot take place. While the issues covered by some of the principles listed below are broader than cooperation and information exchange, these principles are the most relevant to the focus of the FSB. Principles that solely or mainly concern cooperation and information exchange in the areas of tax, anti-money laundering or combating the financing of terrorism were excluded because adherence to these is evaluated by other international bodies, notably the OECD and FATF.

BCBS Core Principles for Effective Banking Supervision⁸

Licensing and Structure

3. Licensing criteria: The licensing authority must have the power to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the ownership structure and governance of the bank and its wider group, including the fitness and propriety of Board members and senior management, its strategic and operating plan, internal controls and risk management, and its projected financial condition, including its capital base. Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.

Methods of Ongoing Banking Supervision

21. Supervisory reporting: Supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on both a solo and a consolidated basis, and a means of independent verification of these reports, through either on-site examinations or use of external experts.

⁷ See Annex H of Financial Stability Forum, Report of the FSF Working Group on Offshore Centres, April 2000, available at: http://www.financialstabilityboard.org/publications/r_0004b.pdf

⁸ The principles listed below refer to the 2006 version. Corresponding principles in the 1997 version are principles 3, 18, 19, 20, 23, 24 and 25.

Consolidated and cross-border banking supervision

24. Consolidated supervision: An essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential norms to all aspects of the business conducted by the group worldwide.
25. Home-host relationships: Cross-border consolidated supervision requires cooperation and information exchange between home supervisors and the various other supervisors involved, primarily host banking supervisors. Banking supervisors must require the local operations of foreign banks to be conducted to the same standards as those required of domestic institutions.

IAIS Insurance Core Principles and Methodology⁹

The supervisory system

5. Supervisory cooperation and information sharing: The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.

The supervised entity

6. Licensing: An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.
7. Suitability of persons: The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfil their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.

Ongoing supervision

17. Group-wide supervision: The supervisory authority supervises its insurers on a solo and a group-wide basis.

IOSCO Objectives and Principles of Securities Regulation¹⁰

C. Principles for the Enforcement of Securities Regulation

8. The regulator should have comprehensive inspection, investigation and surveillance powers.
9. The regulator should have comprehensive enforcement powers.

⁹ The principles listed below refer to the 2003 version. Corresponding principles in the 2000 version are principles 2, 15 and 16. The FSB will shortly update the list of relevant principles to reflect the revised version of the Insurance Core Principles issued in October 2011.

¹⁰ The principles listed below refer to the 1998 version. Corresponding principles in the 2010 version are principles 10, 11, 12, 13, 14 and 15.

10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

D. Principles for Cooperation in Regulation

11. The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.
12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non public information with their domestic and foreign counterparts.
13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

Annex B

Combining indicators of financial importance

A comprehensive assessment of financial importance will necessarily involve a degree of judgement.¹¹ However, for the purposes of prioritising jurisdictions for further evaluation by the FSB, the legitimacy and effectiveness of the process are strengthened by using objective measures that are transparently applied.

Indicators of financial importance

Section 2.1 of the March 2010 document outlines a number of indicators of financial importance. The definition of each indicator is given below.

Domestic financial assets, both in absolute terms and relative to national GDP, where domestic financial assets are estimated by summing the domestic deposit base and the capitalisation of domestic equity and bond markets:

GDP: Gross domestic product, at current prices; 2008 or latest available year, in billions of USD. Sources: IMF, *World Economic Outlook*, October 2009; United Nations, National Accounts Main Aggregates Database.

Currency & deposits: Money plus quasi-money, which is approximately equal to M2; amount outstanding at end-2008 or latest available date, in billions of USD, converted from local currency at end-2008 exchange rates. For euro area countries, demand deposits plus other deposits. Source: IMF, *International Financial Statistics*.

Equity securities: Domestic market capitalisation; end-2008, in billions of USD. Source: World Federation of Exchanges (FIBV); Euronext.

Domestic debt securities: Debt securities issued onshore and/or in local currency; nominal amount outstanding at end-2008, in billions of USD. Source: BIS, *Quarterly Review*, Table 16A.

Domestic financial assets: Sum of Currency & deposits, Equity securities, and Domestic debt securities; in billions of USD and as a percentage of national GDP.¹²

External financial assets and liabilities of a jurisdiction as measured by creditor-side data, specifically the BIS international banking statistics and the IMF Coordinated Portfolio Investment Survey:

Deposits placed abroad: Cross-border liabilities of BIS reporting banks to residents of the specified jurisdiction; amount outstanding at end-2008, in billions of USD. Includes inter-office placements. Source: BIS, *Quarterly Review*, Table 7A.

Foreign portfolio assets: Residents' holdings of equity and debt securities issued by non-residents (excluding securities held by monetary authorities); amount outstanding at end-2007, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

¹¹ For a discussion of ways to assess the systemic importance of financial institutions and markets, see the report prepared by the IMF, BIS and FSB on "Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations", October 2009, available at: http://www.financialstabilityboard.org/publications/r_091107c.pdf

¹² Since the data sources do not provide a breakdown of equity securities and domestic debt securities between domestic and external holders, a simplifying assumption has been made that all holders are domestic. For open financial systems, this will overstate the aggregate measure of domestic residents' holdings of financial assets.

Official reserve assets: Foreign exchange reserves; amount outstanding at end-2008, in billions of USD. Source: IMF, *International Financial Statistics*.

Loans from abroad: Cross-border claims of BIS reporting banks on residents of the specified jurisdiction; amount outstanding at end-2008, in billions of USD. Includes inter-office placements. Source: BIS, *Quarterly Review*, Table 7A.

Foreign portfolio liabilities: Non-residents' holdings of equity and debt securities issued by residents of the specified jurisdiction; amount outstanding at end-2007, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

Liabilities to official institutions: Securities issued by residents of the specified jurisdiction and held as part of official reserves or by international organisations. Source: IMF, Coordinated Portfolio Investment Survey.

Gross external position: Sum of Deposits placed abroad, Foreign portfolio assets, Loans from abroad, and Foreign portfolio liabilities; in billions of USD and as a percentage of national GDP.

Gross capital flows, both in absolute terms and relative to GDP:

Inward investment: Investment by non-residents, comprising foreign direct investment, portfolio investment and other types of investment (e.g. bank lending and derivatives), plus IMF credit; sum of absolute values of annual flows in 2007 and 2008, in billions of USD.¹³ For non-IMF members, bank credit only. Sources: IMF, *International Financial Statistics*; BIS, *Quarterly Review*, Table 6A.

Outward investment: Investment abroad by residents, comprising foreign direct investment, portfolio investment and other types of investment (e.g., bank lending and derivatives), plus official reserves; sum of absolute values of annual flows in 2007 and 2008, in billions of USD.⁷ For non-IMF members, bank credit only. Sources: IMF, *International Financial Statistics*; BIS, *Quarterly Review*, Table 6A.

Gross flows: Sum of Inward investment and Outward investment (in absolute value); in billions of USD and as a percentage of national GDP.

Market share in selected global market segments: cross-border interbank assets, pension fund assets, hedge fund assets (based on both the location of the manager and the legal domicile of the fund), OTC derivatives markets, and insurance premiums:

Cross-border interbank assets: Cross-border claims of BIS reporting banks on other banks and related offices; amount outstanding at end-2008, in billions of USD and as a percentage of world total. Source: BIS, *Quarterly Review*, Tables 6A and 6B.

Pension fund assets: Total assets of independent legal entities that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits; amount outstanding at end-2008 or latest available year, in billions of USD and as a percentage of world total. Excludes assets of social security systems. Source: OECD Global Pension Statistics.

Hedge fund assets: Capital managed by hedge funds, according to (a) the residency of the manager of the fund and (b) the legal domicile of the fund; amount outstanding at end-2008, in billions of USD and as a percentage of world total. Excludes fund borrowings. Source: BIS calculations based on data from Hedge Fund Research.¹⁴

OTC derivatives turnover: Over-the-counter trading of foreign exchange and single-currency interest rate derivatives, according to the location of the sales desk; average daily turnover in April 2007, in billions of USD and as a percentage of world total. Turnover is adjusted for local inter-dealer double counting but not for cross-border inter-dealer double counting. Source: BIS, *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity*, Tables E.23 and E.31.

¹³ Data are only available on a net basis for each type of flow and, therefore, the total will tend to underestimate the value of gross flows.

¹⁴ There is no internationally agreed definition of a hedge fund. For the purposes of this exercise, data from a commercial data provider are used. The use of these data should not be interpreted as an endorsement by the FSB of their quality or reliability.

Insurance premiums: Premiums collected by life and non-life insurance companies: volume in 2008, in billions of USD and as a percentage of world total. Source: Swiss Re. *Sigma*, no 3 / 2009. Table III: Association of Bermuda Insurers and Reinsurers.

Combining indicators

The indicators above can usefully be grouped into three aggregated measures relating to different aspects of financial importance:

- financial activity in absolute terms (i.e. in US dollar equivalents), combining data on domestic financial assets, gross external positions, and gross capital flows;
- financial activity relative to national GDP, again combining data on domestic financial assets, gross external positions and gross capital flows; and
- market segments, showing the global importance of a jurisdiction in the five market segments considered.

The first two aggregates, on financial activity, relate to size and interconnectedness.¹⁵ However, they define financial importance differently: when measured in absolute terms, the aggregate shows the importance of a jurisdiction's financial activity in the global financial system, whereas when measured relative to national GDP it shows the importance of financial activity to a specific jurisdiction. The third aggregate, on market segments, relates more to substitutability and captures financial importance in specialised areas that might be masked by broad measures of financial activity.

The simplest way to combine the various indicators into these three aggregates, considering the mixing of stock and flow data, is to use ordinal rankings. A disadvantage of ordinal rankings is that they do not show quantities. Therefore, they do not help decide how many jurisdictions might truly be of financial importance. That said, for the purposes of *prioritising* jurisdictions for further evaluation by the FSB, ordinal rankings are adequate.

To construct the two aggregates of financial activity, domestic financial assets, gross external positions and gross capital flows are first ranked separately, and then for each jurisdiction an average rank is calculated. For market segments, the different segments are ranked separately, and then for each jurisdiction the highest rank from any of the segments is taken.¹⁶

Assessing degrees of financial importance

Each of the three aggregates – financial activity in absolute terms, financial activity relative to national GDP, and market share in key segments – provides a different perspective on financial importance. While the importance of each for assessing the overall financial

¹⁵ The IMF, BIS and FSB report highlighted three dimensions that are helpful in identifying the systemic importance of markets and institutions: size (the volume of financial services provided by an individual component of the financial system), interconnectedness (linkages with other components of the system), and substitutability (the extent to which other components of the system can provide the same services in the event of a failure). By analogy, they will also be relevant in identifying the financial importance of jurisdictions.

¹⁶ Domestic financial assets, gross external positions and gross capital flows are all highly correlated. A simple average avoids any one of these indicators exerting a disproportionate influence over the aggregate measure of financial activity and, thereby, increases the robustness of the measure. On the other hand, the aggregate measure of importance in market segments is intended to identify jurisdictions that are systemically important in an individual segment, rather than in markets more broadly defined. For this purpose, it is better to use a measure based on the highest rank in any one segment rather than the average across segments.

importance of a jurisdiction will be time-varying and state-dependent, and will reflect the purpose of the assessment, for the purposes of prioritising jurisdictions for further evaluation by the FSB, an objective and transparent method of combining the three aggregates is preferred.

One such method is to take the median of the three ranks. Use of the median takes account of all three measures while minimising distortions from outlying high or low rankings. In effect, greatest financial importance is attached to jurisdictions that are ranked highly in at least two of the three aggregates. A potential disadvantage of this measure is that a jurisdiction that is important in a single key market segment could be ignored. However, in practice such a jurisdiction is likely to specialise in financial business and, consequently, have a high level of financial market activity either in absolute terms or relative to national GDP.



POLICY COUNCIL
THE STATES OF GUERNSEY

Media Release

EMBARGOED UNTIL 00.01 15 MARCH 2013

GUERNSEY TO AGREE PACKAGE OF TAX MEASURES WITH THE UK

Guernsey's Chief Minister has today announced Guernsey's intention to finalise a draft agreement on a proposed 'tax package' with the UK that will reinforce Guernsey's commitment to tax transparency and its status as a leading and respected mainstream international finance centre

The proposed 'package' comprises:

- agreement in principle to enhanced reporting of tax information along FATCA principles through an Intergovernmental Agreement ('IGA'), with alternative reporting arrangements for non-domiciled UK tax residents (non-doms);
- agreement to negotiate a revised Double Taxation Agreement; and
- agreement on a disclosure facility.

The announcement comes as Guernsey also moves towards concluding an IGA with the US on FATCA.

Both IGAs will be subject to the proper decision making process of the States and thus will be presented to the States for approval later this year.

The proposed package of measures would further reinforce Guernsey's position as a tax transparent, co-operative jurisdiction and best positions Guernsey's finance sector for long term growth opportunities.

Chief Minister Deputy Peter Harwood commented:

"Guernsey is fully committed to combating tax evasion and the principle of automatic exchange and our twin IGA approach to US / UK reporting will provide our industry with a very strong platform to compete on the world stage against weaker, less transparent and

compliant jurisdictions. The agreement that we are working towards with the UK will be consistent with our belief that Guernsey's long-term sustainable economic future is best served by safeguarding our position and reputation as a respected, well regulated, tax transparent jurisdiction. With such a UK agreement, automatic exchange under the EU Savings Directive and importantly an IGA arrangement with the US for FATCA now almost concluded, we believe Guernsey business will have both certainty and a competitive advantage."

Guernsey's Treasury & Resources Minister, Deputy Gavin St Pier added:

"Securing a proportionate and workable non-dom reporting regime is clearly pivotal. The arrangements we have negotiated are non-intrusive and respect non-doms' different status under UK tax laws. We are confident that they will secure Guernsey's attractiveness for non-dom business, not least as they were devised in close consultation with industry groups and practitioners.

"We will also agree to a disclosure facility as part of a wider agreement between our two jurisdictions. Given our long-standing commitment to transparency, including our extensive network of tax information exchange agreements and the fact that we already exchange information automatically under the EU Savings Directive, we don't expect the facility to be used much, if at all."

Guernsey's Commerce & Employment Minister, Deputy Kevin Stewart said:

"Our industry asked for long-term certainty, and this proposed agreement and package of measures will give them that. That certainty will give them greater confidence and a competitive edge, as Guernsey will now be even better placed to capture future growth opportunities in finance as a mainstream tax neutral and transparent jurisdiction. The international finance sector has changed and Guernsey has not just changed with it, but has continued to influence that change. Our leadership on the international tax transparency agenda marks us as a mainstream and co-operative place to do business, and sets us apart from weaker, less transparent and co-operative jurisdictions. That will help our firms attract more business."

The final terms and details of the enhanced reporting agreement and the alternative non-dom reporting arrangements will be published in due course and will be subject to consultation with industry on implementation issues. It is presently intended to publish both the US IGA and the UK IGA concurrently to provide for a streamlined consultation and implementation process.

Ends

Note to Media

1. FATCA is the US Government's Foreign Account Tax Compliance Act
2. Guernsey is signed up to automatic tax information exchange through the EU Savings Directive; has the highest category of information exchange with the UK's tax authorities; and was on the original OECD "white-list" of transparent and co-operative jurisdictions.
3. A non-dom is an individual who is resident in a jurisdiction but is not domiciled there for tax purposes.
4. The 'States' refers to Guernsey's parliamentary assembly the States of Deliberation.

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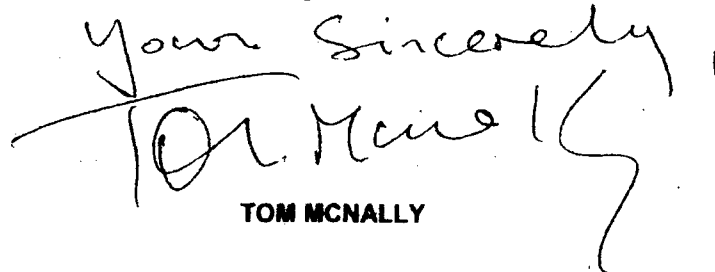
26 November 2012

Dear Chief Minister,

On behalf of the Lord Chancellor, I hereby entrust the Government of Guernsey to commence formal negotiations and conclude an agreement with the Government of the United States of America regarding the sharing of legally confiscated or forfeited assets or their equivalent funds.

This entrustment is given on the understanding that the United Kingdom remains responsible for the international relations of Guernsey; and on the conditions:

- i. that all financial commitments or obligations arising from any agreement concluded by the Government of Guernsey under this entrustment will be the sole responsibility of the Government of Guernsey, unless otherwise agreed with the United Kingdom Government;
- ii. that the Government of Guernsey supplies evidence to the Ministry of Justice that the Government with whom the Government of Guernsey is negotiating is content to conclude the Agreement directly with the Government of Guernsey; and
- iii. that the proposed final text of the Agreement is submitted to the Ministry of Justice in London for approval in good time before signature.

Yours Sincerely,

TOM MCNALLY



SECTION V – INFORMATIONAL MATERIALS

Copy of materials disseminated by the Government of the States of Jersey to Treasury, State Department and Congressional Committees via handout during meetings on the tax and financial systems of the States of Guernsey which were attended by the Registrant as indicated in item 12.

States of Jersey



**States of Jersey Delegation Visit
Washington, DC**

April 2013

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TAB 2: Jersey Policy Tax Information Exchange Agreements (TIEAs) and Double Taxation Agreements (DTAs) and list of TIEAs and DTAs, dated April 18, 2013

TAB 3: Chief Minister Statement dated March 20, 2013 on U.S. FATCA and Enhanced Reporting Arrangements with the UK.

TAB 4: Draft U.S.-Jersey FATCA Intergovernmental Agreement

TAB 5: World Bank Report—Excerpt Describing Jersey as a Model for Providing Beneficial Ownership Information, published on October 24, 2011

TAB 6: Jersey Financial Services Industry Fourth Quarter 2012 Report

TAB 7: United States Department of State International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes, Excerpt on Jersey, dated March 2013

TAB 8: Letter of Entrustment to Jersey to Negotiate TIEAs, dated November 23, 2009

Additional Jersey Information Available

Jersey in Figures:

<http://www.gov.je/Government/JerseyWorld/StatisticsUnit/FactsFigures/Pages/JerseyFiguresBooklet.aspx>

States of Jersey Financial Report and Accounts:

<https://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=768>

States of Jersey Strategic Plan:

<http://www.gov.je/GOVERNMENT/PLANNINGPERFORMANCE/STRATEGICPLANNING/Pages/StrategicPlan.aspx>

Jersey Financial Services Commission Annual Report:

http://www.jerseyfsc.org/pdf/Annual_Report_2011.pdf

States of Jersey Statistics Unit

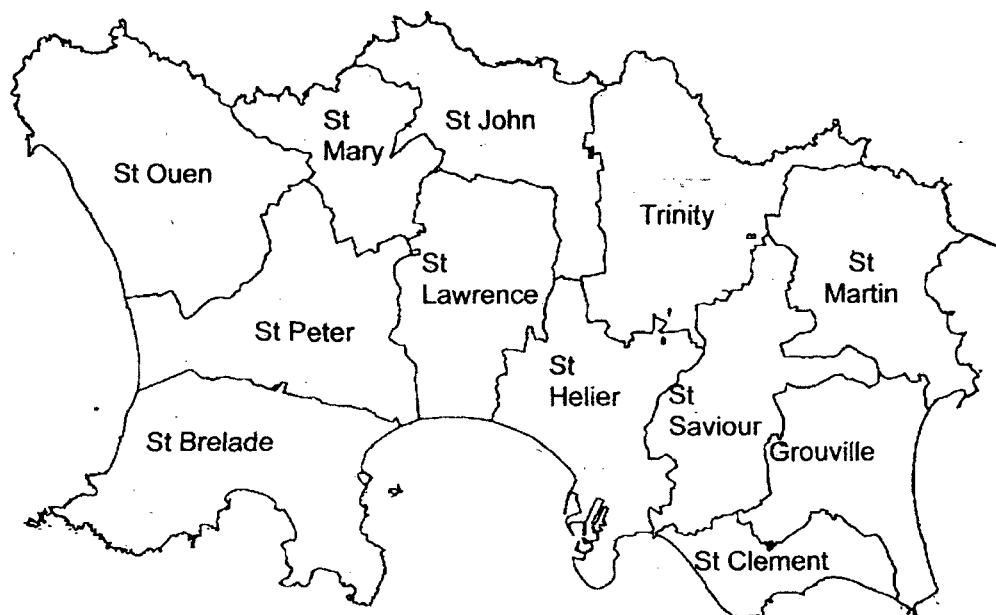
Jersey in Figures, 2011



Jersey is the largest of the Channel Islands with an area of 45 square miles (118.2 km²) and is situated 14 miles off the north-west coast of France and 85 miles from the south coast of England.

Jersey is a Crown Dependency and as such is not part of the UK. The Island is not represented in the UK parliament, whose Acts only extend to Jersey if expressly agreed by the Island that they should do so.

The Island of Jersey is divided into 12 Parishes: Grouville, St. Brelade, St. Clement, St. Helier, St. John, St. Lawrence, St. Martin, St. Mary, St. Ouen, St. Peter, St. Saviour and Trinity. Each Parish is presided over by an elected Connétable, who deals with issues relating to civil matters, and by a Rector who oversees ecclesiastical issues.



The legislature of the Island is called 'The States of Jersey', members of which are elected by the population; males and females aged 16 or over. The States is comprised of the Bailiff, who is President of the Assembly, the Lieutenant-Governor, 10 Senators, the Connétables of the 12 Parishes, 29 Deputies, the Dean of Jersey, the Attorney-General and the Solicitor-General. All members have the right to speak in the States Assembly but only the elected members (the Senators, Connétables and Deputies) have the right to vote; the Bailiff, who is appointed by the Crown and acts as Speaker, has a casting vote.

The system of government is comprised of a Council of Ministers and several Scrutiny Panels. There are 51 States members; a maximum of 25 members are in ministerial positions either as Ministers (ten members) or Assistant Ministers (up to 15 members), and up to 30 other members sit on the Scrutiny Panels.

The economy of Jersey saw a great deal of change during the latter part of the 20th century, as trade markets became more international and global travel increased; traditional Jersey industries such as agriculture and tourism were superseded by financial services as the dominant industry in Jersey. The Financial services sector (which includes banking, trust and company administration, fund management, accountancy and legal activities) has grown such that it now accounts for two-fifths of total economic activity in Jersey and employs about a quarter of the workforce.

Economic Data (2010 figures)

Gross Value Added (GVA)	£3.5 billion
Gross National Income (GNI)	£4.0 billion

States of Jersey:

General Funds Income	£546 million
Net Revenue Expenditure	£599 million
Income Tax Returns	£394 million

Prices and Earnings

All-Items Retail Prices Index (12 months to Dec 2011)	5.0%
Annual increase in average earnings (12 months to June 2011)	2.5%

Population

Resident population (27 March 2011, Census Day)	97,857
Population per square kilometre (2011 Census)	819

Proportion of population (2011 Census):

• <i>working age (women/men 16-59/64 years)</i>	66%
• <i>below working age</i>	17%
• <i>above working age</i>	18%

1. Size and Land Cover of Jersey

Jersey has a total surface area¹ of 118.2 square kilometres (km²) and is divided into 12 Parishes, ranging in size from St Clement (4.2 km²) to St Ouen (15.0 km²).

Table 1.1 Area of Jersey by Parish

	km ²	Vergées	Acres	Percent of Island area
St. Ouen	15	8,447	3,754	13
St. Brelade	12	7,318	2,984	11
Trinity	12	6,942	3,086	10
St. Peter	12	6,539	2,906	10
St. Martin	10	5,688	2,529	9
St. Lawrence	10	5,454	2,424	8
St. Helier	9	5,263	2,339	8
St. Saviour	9	5,133	2,282	8
St. John	9	5,060	2,249	8
Grouville	8	4,554	2,024	7
St. Mary	7	3,645	1,618	5
St. Clement	4	2,393	1,063	4
Total	118	66,436	29,258	100

The area of St Helier includes reclaimed land area of 957 Vergées (2 km²).

Note: km² rounded independently to nearest integer

In 2006, a quarter of the land was built upon, over a half was cultivated and a sixth was natural vegetation.

Table 1.2 Land cover type by Parish, percentages

Percentages	Built Environment	Cultivation	Natural Vegetation	Misc.	Inland Water	Glass-houses	Total
St. Ouen	15	63	20	1	1	0	100
St. Brelade	30	24	37	9	0	0	100
Trinity	16	64	18	1	0	0	100
St. Peter	22	52	13	11	1	0	100
St. Martin	19	66	14	1	0	0	100
St. Lawrence	22	63	12	2	1	0	100
St. Helier	52	32	9	7	0	0	100
St. Saviour	33	55	5	4	1	1	100
St. John	19	65	14	2	0	0	100
Grouville	23	61	8	5	2	1	100
St. Mary	16	69	12	2	0	0	100
St. Clement	38	48	3	9	0	2	100
All	24	54	16	4	1	<1	100

"Built environment" includes man-made surfaces such as buildings, roads, footpaths, domestic gardens, harbour areas etc. "Natural Vegetation" includes woodlands, dunes, grassland, cliffs and shrub. "Miscellaneous" includes parks, golf courses, the airport field, urban open spaces, cemeteries and sports fields. "Glasshouses" only includes commercial glasshouses over 200m².

¹ Including reclaimed land of St Helier.

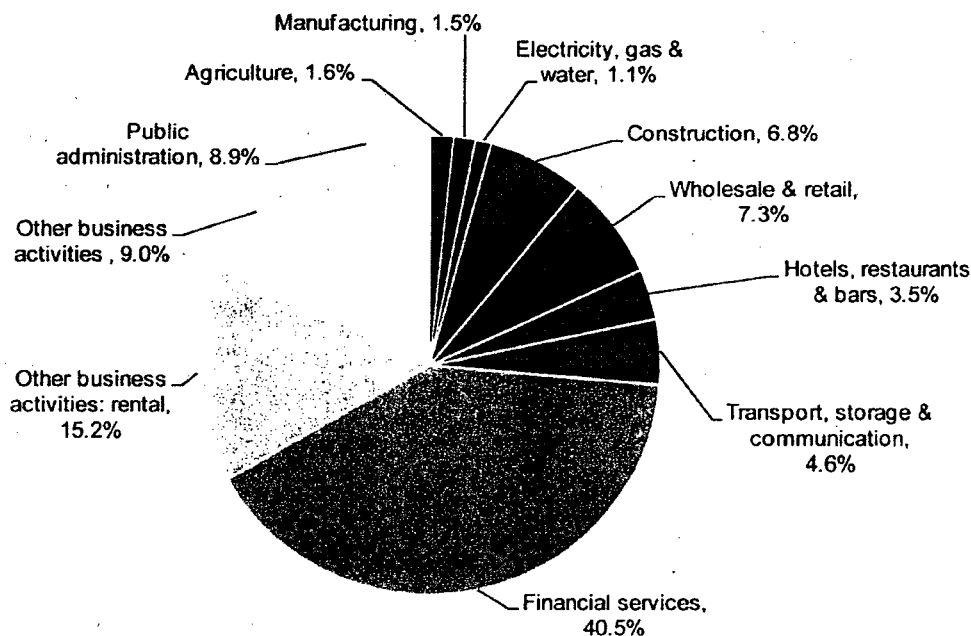
2. National Accounts

The concept of Gross Value Added (GVA) provides an appropriate measure of economic activity in Jersey. In essence, GVA is the sum of profits of businesses and earnings of employees. In 2010, total GVA (at basic prices) for Jersey was £3.5 billion.

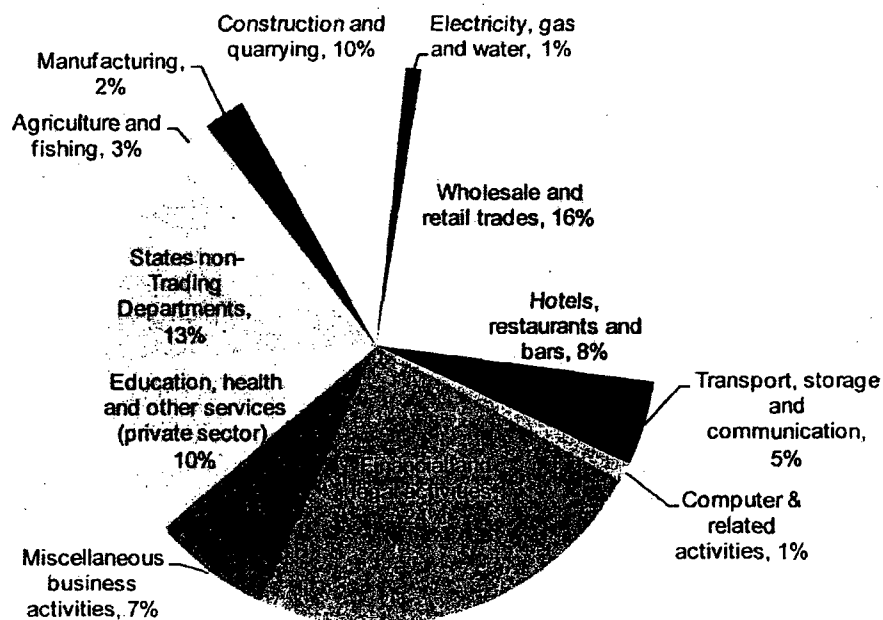
Economic activity can also be considered in terms of the total income of resident businesses and individuals. This aggregate measure, known as Gross National Income (GNI), is derived from total GVA by subtracting income earned in Jersey by non-Jersey owned businesses and adding income earned overseas by Jersey businesses and resident individuals. In 2010, Jersey's GNI was £4.0 billion.

The GVA for each sector of Jersey's economy is shown in Figure 2.1. Financial services accounted for 41% of total GVA in 2010.

Figure 2.1: Gross Value Added by sector², 2010



² The 'Other business activities' sector is made up of a range of services (principally, businesses servicing households or other businesses) and includes rental income of private households, both actual and imputed.

Figure 6.2 Sectoral Breakdown of Employment (headcount), December 2011

Note: Transport, storage and communication includes former & current States Trading Committees.

In December 2011, there were over 6,600 private sector firms in Jersey. Of these around four-fifths (80%) employed 5 or fewer people. The greatest proportion of small businesses was in the Other Business Activities sector (88%) followed by Construction (82%). The Finance sector had the lowest proportion of small businesses (63%) and the greatest proportion of the large businesses (employing more than 20 people) at 20%.

Table 6.1 Number of Firms & Employees by Sector (Private sector only)

Sector	Number of companies by size of workforce				Total Number of employees
	1 – 5	6 - 20	21+	Total	
Agriculture and fishing	290	50	10	350	1,490
Manufacturing and utilities	180	40	10	230	1,810
Construction and quarrying	1,010	170	60	1,240	5,200
Wholesale and retail trades	870	170	70	1,120	8,680
Hotels, restaurants & bars	350	120	40	520	4,560
Transport, storage & communication	250	30	30	310	2,600
Finance and legal activities	310	80	100	490	12,760
Education, health and other services	960	140	70	1,170	5,630
Other business activities	1,050	110	30	1,190	4,340
Total	5,260	910	430	6,600	47,070

Table 6.4 – Industry of employment by gender for working age (percentages)

	Female	Male
Agriculture and fishing	24	76
Finance (including legal work)	56	44
Construction and tradesmen	5	95
Wholesale & retail	45	55
Transport, storage and communication	22	78
Education, health and other services (private sector)	69	31
Hotels, restaurants and bars	42	58
Electricity, gas and water	20	80
Manufacturing	22	78
Public Sector	45	55
All	45	55

Further reading: Jersey Census 2011 Bulletin 4, Statistics Unit.

Number of Hours Worked

At the time of the 2011 Census, full-time employees (including the self-employed) worked an average of 39.8 hours per week.

Table 6.5 Average hours worked per week by employees, 2011

Year	Full-time			Part-time			Full- & Part-time		
	Male	Female	All	Male	Female	All	Male	Female	All
Working for an employer	40.6	37.4	39.2	17.7	18.5	18.4	39.7	33.6	36.8
Self-employed	45.8	43.2	45.4	17.4	15.7	16.5	43.3	34.0	41.2

Further reading: Jersey Census 2011 Bulletin 4, Statistics Unit.

Table 6.6 presents the average number of hours worked by full-time employees by industry. Workers in Agriculture and fishing worked the longest hours, averaging over 45 hours per week.

8. States of Jersey Income and Expenditure

In 2010, the States of Jersey recorded a deficit which was slightly higher than budgeted. The deficit arose because tax revenues, particular income tax receipts, were substantially lower than in 2009. The drop in tax revenues associated with the change in corporate tax to "0/10" was planned for; revenues have also been affected by the economic downturn and lower interest rates. The States has agreed a strategy to return to balanced budgets by 2013.

Total income in 2010 was £546 million, some £128 million less than in 2009. Total States net expenditure was £631 million, comprising net revenue expenditure of £599 million and capital expenditure of £32 million.

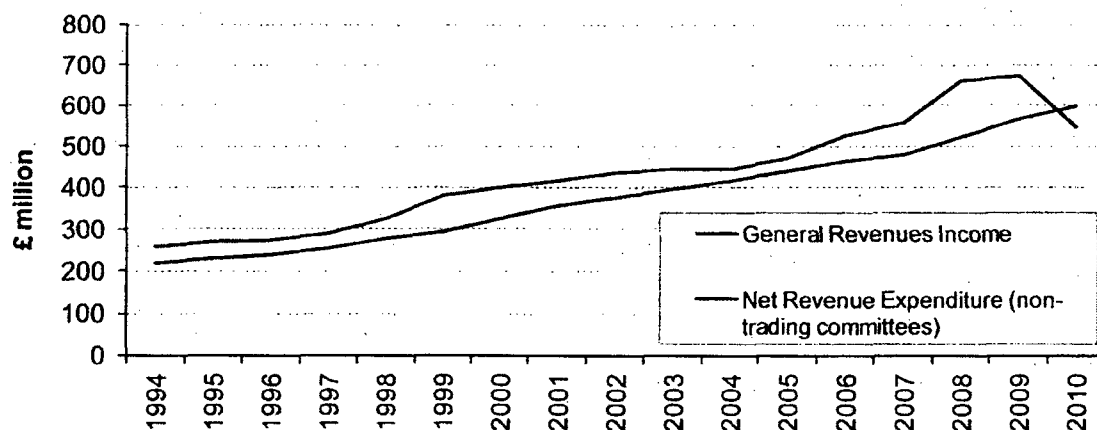
Table 8.1 States of Jersey Income and Expenditure, 2010

Budget 2010 £ million	Income	Actual 2010 £ million	Actual 2009 £ million
391	Income tax	394	507
51	Goods and Services Tax (introduced May 2008)	44	47
50	Impôts	49	51
22	Stamp duty	20	24
29	Other income	28	35
11	Island-wide Rates	11	10
554	Total income	546	674
(586)	Net Revenue Expenditure ¹	(599)	(565)
(32)	Budgeting Deficit (Business Plan basis)	(53)	109
(32)	Capital Expenditure Allocation	(32)	(30)
(64)	Surplus/(Deficit) after Capital Expenditure Allocation	(85)	79

The figures exclude depreciation and impairments. The income and expenditure of States Trading Operations are excluded as these are funded from their Trading Funds.

Source: Treasury & Resources States Accounts 2010

Figure 8.1 General Funds Income and Expenditure, 1994-2010



JERSEY

TAX INFORMATION EXCHANGE AGREEMENTS (TIEAs) AND DOUBLE TAXATION AGREEMENTS (DTAs)

GENERAL POLICY

1. In February 2002, Jersey entered into a political commitment to support the OECD tax initiative on transparency and information exchange through the negotiation of tax information exchange agreements to an agreed international standard.
2. In September 2009, the Global Forum on Transparency and Information Exchange for Tax Purposes, a body of which some 120 jurisdictions are now members, agreed a peer review process to assess compliance with the international standard. To oversee this process, a peer review group was set up chaired by France with four vice chairs from India, Japan, Jersey and Singapore.
3. Successive G20 summits have encouraged jurisdictions to make progress in agreeing, implementing and abiding by the necessary international agreements for information exchange. In response Jersey has maintained an active programme of negotiating agreements with EU, OECD and G20 member jurisdictions. This has served to enhance the Island's international personality, and generally has helped to engender a more favorable view of the Island amongst the international community.
4. There are occasions when an approach is made to or received from a jurisdiction that is not an EU, OECD or G20 member expressing a wish to enter into the negotiation of a tax information exchange agreement. In accordance with the terms of reference of the peer review process set by the Global Forum, jurisdictions are required to enter into a tax information exchange agreement with any jurisdiction that considers itself to be a relevant partner.
5. The international tax information exchange standard can be met through either a Tax Information Exchange Agreement (TIEA) or a Double Tax Agreement (DTA). The advantage of a DTA is that it offers benefits to individuals and the business community through the avoidance of double taxation or reduced rates of withholding tax, in addition to providing for exchange of information to the international standard.
6. The latest position in respect of the programme of negotiating tax agreements is attached as an appendix to this note. A total of thirty one TIEAs and eight DTAs have now been signed of which twenty four TIEAs and three DTAs are in force. Almost without exception the delay in bringing agreements into force is due to the length of time taken by the other parties to the agreements to complete their domestic procedures for the ratification of the agreements.
7. As a Vice Chair of the Global Forum Peer Review Group, Jersey has been determined to lead by example, and has attached particular importance to entering into agreements with the EU, OECD and G20 member jurisdictions. Agreements have been signed, or negotiations have been completed or are well advanced, with twenty

five of the twenty seven EU member states, thirty three of the thirty four OECD members and seventeen of the nineteen G20 countries(the 20th member of the G20 is the European Union) .

8. Jersey is party to the Peer Review process of assessment of compliance with the international standards, and a report of the assessment of Jersey was published at the end of October 2011. The review concluded that Jersey's domestic laws provide a satisfactory framework for the exchange of relevant information. The assessors said "overall, this review of Jersey identifies a legal and regulatory framework for the exchange of information which generally functions effectively to ensure that the required information will be available and accessible..... Jersey practices to date have demonstrated a responsive and co-operative approach"

15th April 2013

STATES OF JERSEYA.TAX INFORMATION EXCHANGE AGREEMENTS (TIEAs)

1. TIEAs signed

<u>Countries</u>	<u>Date Signed</u>	<u>Ratified by Jersey</u>	<u>Ratified by other Party</u>	<u>Entry into Force</u>
USA	Nov 2002	May 2006	Nov. 2002	23 May 2006
Netherlands	June 2007	Feb 2008	Dec 2007	1 March 2008
Germany	July 2008	Jan 2009	July 2009	28 Aug 2009
Sweden	Oct 2008	March 2009	Nov 2009	23 Dec 2009
Norway	Oct 2008	March 2009	Sept 2009	7 Oct 2009
Iceland	Oct 2008	March 2009	Oct 2009	3 Dec 2009
Finland	Oct 2008	March 2009	Dec 2008	3 Aug 2009
Denmark	Oct 2008	March 2009	March 2009	6 June 2009
Greenland	Oct 2008	March 2009	March 2009	6 June 2009
Faroese	Oct 2008	March 2009	June 2009	21 Aug 2009
U.K.	March 2009	July 2009	Nov 2009	27 Nov 2009
France	March 2009	July 2009	July 2010	11 Oct 2010
Ireland	March 2009	July 2009	April 2010	5 May 2010
Australia	June 2009	Nov 2009	January 2010	5 Jan 2010
New Zealand	July 2009	Nov 2009	Sept 2010	27 Oct 2010
Portugal	July 2010	Sept 2010	March 2011	9 Nov 2011
People's Republic of China	Oct 2010	Jan 2011	Oct 2011	10 Nov 2011
Turkey	Nov 2010	Feb 2011	(1st Half 2013)	(1st Half 2013)
Mexico	Nov 2010	Feb 2011	Feb 2012	22 March 2012
Canada	Jan 2011	March 2011	Dec 2011	19 Dec 2011
Indonesia	April 2011	July 2011	(1st Half 2013)	(1st Half 2013)
Czech Republic	July 2011	Nov 2011	March 2012	14 March 2012
South Africa	July 2011	Nov 2011	Jan 2012	29 Feb 2012
Argentina	July 2011	Sept 2011	July 2011	9 Dec 2011
India	Nov 2011	April 2012	Jan 2012	8 May 2012
Japan	Dec 2011	April 2012	(1st Half 2013)	(1st Half 2013)
Poland	Dec 2011	April 2012	August 2012	1 Nov 2012
Italy	March 2012	May 2012	(1st Half 2013)	(1st Half 2013)
Austria	Sept 2012	Nov 2012	March 2013	1st June 2013
Latvia	Jan 2013	March 2013	(2nd Half 2013)	(2nd Half 2013)
Brazil	Jan 2013	March 2013	(2nd Half 2013)	(2nd Half 2013)

Note: dates in brackets are the expected dates based on latest information from the country concerned.

2. TIEAs initialled or agreed ready for signing:

- Greece
- Republic of Korea
- Slovenia
- Spain
- Switzerland

3. TIEAs where negotiations are well advanced with a draft agreement exchanged :

- Belgium
- Chile
- Hungary
- Kenya
- Lithuania
- Romania
- Slovakia

4. Jurisdictions contacted from which there has been a positive response and/or initial action has been taken:

- Bulgaria
- Cyprus

5. Jurisdictions approached but from whom a formal response is awaited:

- G20 Member States;
- Russia

B. DOUBLE TAXATION AGREEMENTS(DTAs)

1. DTAs signed:

- Malta -
signed Jan 2010
ratified by Malta Feb 2010
ratified by Jersey June 2010
in force - 19 July 2010
- Estonia -
signed Dec 2010
ratified by Jersey March 2011
ratified by Estonia Dec 2011
in force - 30 Dec 2011
- Hong Kong China -
signed Feb 2012
ratified by Jersey May 2012
- Qatar
signed March 2012
ratified by Jersey May 2012
ratified by Qatar Nov 2012
in force - 22 Nov 2012

- Singapore
signed Oct 2012
ratified by Jersey Jan 2013
- Guernsey
signed January 2013
- Isle of Man
signed January 2013
- Luxembourg
signed April 2013

2. DTAs initialled or agreed ready for signing

3. DTAs where negotiations have been initiated/draft agreements have been exchanged:

- Bahrain
- Belgium
- Mauritius
- Saudi Arabia
- Seychelles

Enquiries concerning the above should be directed in the first instance to Colin Powell, Adviser – International Affairs in the Chief Minister's Dept; tel: 44(0)1534 440414; email: c.powell@gov.je

Colin Powell
Adviser – International Affairs

18th April 2013

STATEMENT BY THE CHIEF MINISTER, 20 MARCH

**NEGOTIATIONS ON US FATCA AND ON ENHANCED
REPORTING ARRANGEMENTS WITH THE UK**

I am making a statement about negotiations on the US Foreign Account Tax Compliance Act and on related negotiations with the United Kingdom. There will be reference to these matters in the UK budget today.

As members will be aware, FATCA seeks to limit the evasion of US tax by placing reporting requirements on foreign financial institutions. Consultations with industry were completed last Friday, and it is clear that industry's preference is for Jersey to enter into a FATCA intergovernmental agreement with the US. We have sought to negotiate such an agreement. This is similar to the one that the UK signed with the US last year, and to some 50 other agreements that are still being negotiated

It is generally accepted that there are real benefits for financial institutions in reporting through an intergovernmental agreement as opposed to reporting directly to the US Internal Revenue Service. Guernsey, the Isle of Man and the Cayman Islands are among the jurisdictions to share this view.

Our negotiations have progressed well, and we recently initialed an agreement with the USA. The only outstanding matter is a jurisdiction-specific annex on which a response from the US is awaited. Therefore, financial institutions can be assured that they will be operating under the umbrella of an intergovernmental agreement and can plan accordingly. We hope to be able to sign the full Agreement, including the annex, shortly. The Agreement will then be presented to the States for ratification and the required Regulations will be presented for adoption.

When the US Agreement is in force, financial institutions will have until the 30th September 2015 to report information relating to calendar years 2013 and 2014.

The UK indicated to us, to the other Crown Dependencies and to the UK Overseas Territories that they wished to match the position being negotiated with the US; that is, they were seeking a FATCA-type information exchange on an automatic basis. They found it difficult to accept that we would be giving more information to the US than to the UK in the fight against tax evasion.

We were concerned that there would not be a level playing field globally. The UK clarified that they regarded FATCA as setting the new standard in international tax transparency. We understand that the UK will be pressing for this at the G8 meeting in June and at meetings of the OECD.

We, along with Guernsey and the Isle of Man, ALSO had concerns regarding those UK residents who are non-domiciled for tax purposes (the so-called "res non-doms"). An alternative reporting arrangement for this category of taxpayers was sought because there were concerns about the potential loss of business to competitor jurisdictions. Such a loss would affect not only Jersey but also the UK economy.

There was also a concern regarding the internationally accepted view that jurisdictions should seek the same information from their own taxpayers that is being asked of another jurisdiction.

At all times we have emphasised to the UK that we are committed to supporting them in the fight against tax evasion. We emphasised our good track record, with tax evasion having been included as an offence under our anti-money laundering legislation since 1999. We mentioned our public statements, agreed with the finance industry, that Jersey neither needs nor wishes to accommodate those engaged in tax evasion. As a vice chair of the OECD Global Forum Peer Review Group (which assesses compliance with the international standards) we seek to lead by example. Members will be aware that Jersey has an internationally recognised reputation which has been confirmed in assessments by international organisations such as the IMF.

Having balanced all these factors, I am announcing to Members today that we have agreed a package with the UK similar to those committed to by the Isle of Man and Guernsey. This agreement will be referred to in the UK Budget today. The package is as follows:-

- An intergovernmental agreement that, apart from certain annexes, closely follows the Agreement with the US. Financial institutions will have up to September 2016 to exchange information relating to 2013 and 2014;
- An alternative reporting arrangement for the "res non-doms" which will be included in an Annex to the Agreement. This will be finalised to the same timetable as the agreement currently being negotiated with the US;
- A disclosure facility, full details of which will be published shortly, which will allow investors with assets in Jersey to come forward and regularise their past tax affairs.

In addition to this package, the UK have indicated that they are happy to consider a possible renegotiation of our current Double Taxation Agreement.

The package of measures will put beyond doubt Jersey's ongoing commitment to the fight against tax evasion. We have also recognised the special relationship that we have with the UK. We will watch with interest the efforts being made by the UK to promote a new global standard based on FATCA. Should such a standard be adopted internationally, we will respond appropriately.

For our future as an international finance centre, it is important that the international community continues to recognise Jersey as a jurisdiction that has high levels of compliance. Increasingly, the best financial institutions and investors will only want to be associated with such a quality jurisdiction. By reaching agreement with the US and the UK on enhanced information exchange we are making an important contribution to the future success of Jersey as an international finance centre.

We intend to continue engaging positively with the UK and other countries in the pursuit of the global objectives for transparency and international cooperation. Studies commissioned from Capital Economics and McKinsey have both shown how we contribute to the UK economy and to world financial markets. Ministers are at present completing an update of the islands financial services industry strategy. This strategy is designed to continue to ensure the industry innovates, prospers and continues to be regarded as one of the world's financial centres.

I have absolutely no doubt that, working together, we in government, the regulator and the finance industry will ensure the continuing success of Jersey ... to the benefit of all Island residents.

ENDS

DRAFT

**Agreement Between the Government of the United States of America and the
Government of Jersey to Improve International Tax Compliance and to Implement
FATCA**

Whereas, the Government of the United States of America and the Government of Jersey (each, a "Party") have a longstanding and close relationship with respect to mutual assistance in tax matters and desire to conclude an agreement to improve international tax compliance by further building on that relationship;

Whereas it is acknowledged that Jersey has the right under the terms of its entrustment from the United Kingdom to negotiate, conclude, perform and, subject to the terms of this agreement, terminate a tax information exchange agreement with the Government of the United States of America;

Whereas, [Articles 5 through 7] of the Tax Information Exchange Agreement between the United States of America and Jersey (the "TIEA") authorizes exchange of information for tax purposes, including on an automatic basis;

Whereas, the United States of America enacted provisions commonly known as the Foreign Account Tax Compliance Act ("FATCA"), which introduce a reporting regime for financial institutions with respect to certain accounts;

Whereas, the Government of Jersey is committed to compliance with international standards of transparency and exchange of information for tax purposes and is supportive of the underlying policy goal of FATCA to improve tax compliance;

Whereas, FATCA has raised a number of issues, including that Jersey financial institutions may not be able to comply with certain aspects of FATCA due to domestic legal impediments;

Whereas, the Government of the United States of America collects information regarding certain accounts maintained by U.S. financial institutions held by residents of Jersey and is committed to exchanging such information with the Government of Jersey and pursuing equivalent levels of exchange;

Whereas, the Parties are committed to working together over the longer term towards achieving common reporting and due diligence standards for financial institutions;

Whereas, the Government of the United States of America acknowledges the need to coordinate the reporting obligations under FATCA with other U.S. tax reporting obligations of Jersey financial institutions to avoid duplicative reporting;

Whereas, an intergovernmental approach to FATCA implementation would address legal impediments and reduce burdens for Jersey financial institutions;

Whereas, the Parties desire to conclude an agreement to improve international tax compliance and provide for the implementation of FATCA based on domestic reporting and reciprocal automatic exchange pursuant to the TIEA and subject to the confidentiality and other protections provided for therein, including the provisions limiting the use of the information

exchanged under the TIEA;

Now, therefore, the Parties have agreed as follows:

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Article 1
Definitions

1. For purposes of this agreement and any annexes thereto ("Agreement"), the following terms shall have the meanings set forth below:

- a) The term "**United States**" means the United States of America, including the States thereof, but does not include the U.S. Territories. Any reference to a "**State**" of the United States includes the District of Columbia.
- b) The term "**U.S. Territory**" means American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, the Commonwealth of Puerto Rico, or the U.S. Virgin Islands.
- c) The term "**IRS**" means the U.S. Internal Revenue Service.
- d) The term "**Jersey**" means the Bailiwick of Jersey.
- e) The term "**Partner Jurisdiction**" means a jurisdiction that has in effect an agreement with the United States to facilitate the implementation of FATCA. The IRS shall publish a list identifying all Partner Jurisdictions.
- f) The term "**Competent Authority**" means:
 - (1) in the case of the United States, the Secretary of the Treasury or his delegate; and
 - (2) in the case of Jersey, the Minister for Treasury and Resources or his authorised representative.
- g) The term "**Financial Institution**" means a Custodial Institution, a Depository Institution, an Investment Entity, or a Specified Insurance Company.
- h) The term "**Custodial Institution**" means any Entity that holds, as a substantial portion of its business, financial assets for the account of others. An entity holds financial assets for the account of others as a substantial portion of its business if the entity's gross income attributable to the holding of financial assets and related financial services equals or exceeds 20 percent of the entity's gross income during the shorter of: (i) the three-year period that ends on December 31 (or the final day of a non-calendar year accounting period) prior to the year in which the determination is being made; or (ii) the period during which the entity has been in existence.
- i) The term "**Depository Institution**" means any Entity that accepts deposits in the ordinary course of a banking or similar business.
- j) The term "**Investment Entity**" means any Entity that conducts as a business (or is managed by an entity that conducts as a business) one or more of the following activities or operations for or on behalf of a customer:
 - (1) trading in money market instruments (cheques, bills, certificates of

deposit, derivatives, etc.); foreign exchange; exchange, interest rate and index instruments; transferable securities; or commodity futures trading;

- (2) individual and collective portfolio management; or
- (3) otherwise investing, administering, or managing funds or money on behalf of other persons.

This subparagraph 1(j) shall be interpreted in a manner consistent with similar language set forth in the definition of "Financial Institution" in the Financial Action Task Force Recommendations.

- k) The term "**Specified Insurance Company**" means any Entity that is an insurance company (or the holding company of an insurance company) that issues, or is obligated to make payments with respect to, a Cash Value Insurance Contract or an Annuity Contract.
- l) The term "**Jersey Financial Institution**" means (i) any Financial Institution resident in Jersey, but excluding any branch of such Financial Institution that is located outside Jersey, and (ii) any branch of a Financial Institution not resident in Jersey, if such branch is located in Jersey.
- m) The term "**Partner Jurisdiction Financial Institution**" means (i) any Financial Institution resident in a Partner Jurisdiction, but excluding any branch of such Financial Institution that is located outside the Partner Jurisdiction, and (ii) any branch of a Financial Institution not resident in the Partner Jurisdiction, if such branch is located in the Partner Jurisdiction.
- n) The term "**Reporting Financial Institution**" means a Reporting Jersey Financial Institution or a Reporting U.S. Financial Institution, as the context requires.
- o) The term "**Reporting Jersey Financial Institution**" means any Jersey Financial Institution that is not a Non-Reporting Jersey Financial Institution.
- p) The term "**Reporting U.S. Financial Institution**" means (i) any Financial Institution that is resident in the United States, but excluding any branch of such Financial Institution that is located outside the United States, and (ii) any branch of a Financial Institution not resident in the United States, if such branch is located in the United States, provided that the Financial Institution or branch has control, receipt, or custody of income with respect to which information is required to be exchanged under subparagraph (2)(b) of Article 2 of this Agreement.
- q) The term "**Non-Reporting Jersey Financial Institution**" means any Jersey Financial Institution, or other Entity resident in Jersey that is described in Annex II as a Non-Reporting Jersey Financial Institution or that otherwise qualifies as a deemed-compliant FFI, an exempt beneficial owner, or an excepted FFI under relevant U.S. Treasury Regulations.
- r) The term "**Nonparticipating Financial Institution**" means a nonparticipating

FPI, as that term is defined in relevant U.S. Treasury Regulations, but does not include a Jersey Financial Institution or other Partner Jurisdiction Financial Institution other than a Financial Institution identified as a Nonparticipating Financial Institution pursuant to paragraph 2(b) of Article 5 of this Agreement.

- s) The term **"Financial Account"** means an account maintained by a Financial Institution, and includes:
- (1) in the case of an Entity that is a Financial Institution solely because it is an Investment Entity, any equity or debt interest (other than interests that are regularly traded on an established securities market) in the Financial Institution;
 - (2) in the case of a Financial Institution not described in subparagraph 1(s)(1) of this Article, any equity or debt interest in the Financial Institution (other than interests that are regularly traded on an established securities market), if (i) the value of the debt or equity interest is determined, directly or indirectly, primarily by reference to assets that give rise to U.S. Source Withholdable Payments, and (ii) the class of interests was established with a purpose of avoiding reporting in accordance with this Agreement; and
 - (3) any Cash Value Insurance Contract and any Annuity Contract issued or maintained by a Financial Institution, other than a noninvestment-linked, nontransferable immediate life annuity that is issued to an individual and monetizes a pension or disability benefit provided under an account, product, or arrangement that is excluded from the definition of Financial Account in Annex II.

Notwithstanding the foregoing, the term "Financial Account" does not include any account, product, or arrangement that is excluded from the definition of Financial Account in Annex II.

- t) The term **"Depository Account"** includes any commercial, checking, savings, time, or thrift account, or an account that is evidenced by a certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness, or other similar instrument maintained by a Financial Institution in the ordinary course of a banking or similar business. A Depository Account also includes an amount held by an insurance company pursuant to a guaranteed investment contract or similar agreement to pay or credit interest thereon.
- u) The term **"Custodial Account"** means an account (other than an Insurance Contract or Annuity Contract) for the benefit of another person that holds any financial instrument or contract held for investment (including, but not limited to, a share or stock in a corporation, a note, bond, debenture, or other evidence of indebtedness, a currency or commodity transaction, a credit default swap, a swap based upon a nonfinancial index, a notional principal contract, an Insurance Contract or Annuity Contract, and any option or other derivative instrument).
- v) The term **"Equity Interest"** means, in the case of a partnership that is a

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Financial Institution, either a capital or profits interest in the partnership. In the case of a trust that is a Financial Institution, an Equity Interest is considered to be held by any person treated as a settlor or beneficiary of all or a portion of the trust, or any other natural person exercising ultimate effective control over the trust. A Specified U.S. Person shall be treated as being a beneficiary of a foreign trust if such Specified U.S. Person has the right to receive directly or indirectly (for example, through a nominee) a mandatory distribution or may receive, directly or indirectly, a discretionary distribution from the trust.

- w) The term "**Insurance Contract**" means a contract (other than an Annuity Contract) under which the issuer agrees to pay an amount upon the occurrence of a specified contingency involving mortality, morbidity, accident, liability, or property risk.
- x) The term "**Annuity Contract**" means a contract under which the issuer agrees to make payments for a period of time determined in whole or in part by reference to the life expectancy of one or more individuals. The term also includes a contract that is considered to be an Annuity Contract in accordance with the law, regulation, or practice of the jurisdiction in which the contract was issued, and under which the issuer agrees to make payments for a term of years.
- y) The term "**Cash Value Insurance Contract**" means an Insurance Contract (other than an indemnity reinsurance contract between two insurance companies) that has a Cash Value greater than \$50,000.
- z) The term "**Cash Value**" means the greater of (i) the amount that the policyholder is entitled to receive upon surrender or termination of the contract (determined without reduction for any surrender charge or policy loan), and (ii) the amount the policyholder can borrow under or with regard to the contract. Notwithstanding the foregoing, the term "Cash Value" does not include an amount payable under an Insurance Contract as:
 - (1) a personal injury or sickness benefit or other benefit providing indemnification of an economic loss incurred upon the occurrence of the event insured against;
 - (2) a refund to the policyholder of a previously paid premium under an Insurance Contract (other than under a life insurance contract) due to policy cancellation or termination, decrease in risk exposure during the effective period of the Insurance Contract, or arising from a redetermination of the premium due to correction of posting or other similar error; or
 - (3) a policyholder dividend based upon the underwriting experience of the contract or group involved.
- aa) The term "**Preexisting Account**" means a Financial Account maintained by a Reporting Financial Institution as of December 31, 2013.

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- bb) The term "**Reportable Account**" means a U.S. Reportable Account or a Jersey Reportable Account, as the context requires.
- cc) The term "**Jersey Reportable Account**" means a Financial Account maintained by a Reporting U.S. Financial Institution if: (i) in the case of a Depository Account, the account is held by an individual resident in Jersey and more than \$10 of interest is paid to such account in any given calendar year; or (ii) in the case of a Financial Account other than a Depository Account, the Account Holder is a resident of Jersey, including an Entity that certifies that it is resident in Jersey for tax purposes, with respect to which U.S. source income that is subject to reporting under chapter 3 or chapter 61 of subtitle A of the U.S. Internal Revenue Code is paid or credited.
- dd) The term "**U.S. Reportable Account**" means a Financial Account maintained by a Reporting Jersey Financial Institution and held by one or more Specified U.S. Persons or by a Non-U.S. Entity with one or more Controlling Persons that is a Specified U.S. Person. Notwithstanding the foregoing, an account shall not be treated as a U.S. Reportable Account if such account is not identified as a U.S. Reportable Account after application of the due diligence procedures in Annex I.
- ee) The term "**Account Holder**" means the person listed or identified as the holder of a Financial Account by the Financial Institution that maintains the account. A person, other than a Financial Institution, holding a Financial Account for the benefit or account of another person as agent, custodian, nominee, signatory, investment advisor, or intermediary, is not treated as holding the account for purposes of this Agreement, and such other person is treated as holding the account. In the case of a Cash Value Insurance Contract or an Annuity Contract, the Account Holder is any person entitled to access the Cash Value or change the beneficiary of the contract. If no person can access the Cash Value or change the beneficiary, the Account Holder is any person named as the owner in the contract and any person with a vested entitlement to payment under the terms of the contract. Upon the maturity of a Cash Value Insurance Contract or an Annuity Contract, each person entitled to receive a payment under the contract is treated as an Account Holder.
- ff) The term "**U.S. Person**" means a U.S. citizen or resident individual, a partnership or corporation organized in the United States or under the laws of the United States or any State thereof, a trust if (i) a court within the United States would have authority under applicable law to render orders or judgments concerning substantially all issues regarding administration of the trust, and (ii) one or more U.S. persons have the authority to control all substantial decisions of the trust, or an estate of a decedent that is a citizen or resident of the United States. This subparagraph 1(ff) shall be interpreted in accordance with the U.S. Internal Revenue Code.
- gg) The term "**Specified U.S. Person**" means a U.S. Person, other than: (i) a corporation the stock of which is regularly traded on one or more established securities markets; (ii) any corporation that is a member of the same expanded affiliated group, as defined in section 1471(e)(2) of the U.S. Internal Revenue Code, as a corporation described in clause (i); (iii) the United States or any

wholly owned agency or instrumentality thereof; (iv) any State of the United States, any U.S. Territory, any political subdivision of any of the foregoing, or any wholly owned agency or instrumentality of any one or more of the foregoing; (v) any organization exempt from taxation under section 501(a) or an individual retirement plan as defined in section 7701(a)(37) of the U.S. Internal Revenue Code; (vi) any bank as defined in section 581 of the U.S. Internal Revenue Code; (vii) any real estate investment trust as defined in section 856 of the U.S. Internal Revenue Code; (viii) any regulated investment company as defined in section 851 of the U.S. Internal Revenue Code or any entity registered with the Securities Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a-64); (ix) any common trust fund as defined in section 584(a) of the U.S. Internal Revenue Code; (x) any trust that is exempt from tax under section 664(c) of the U.S. Internal Revenue Code or that is described in section 4947(a)(1) of the U.S. Internal Revenue Code; (xi) a dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the laws of the United States or any State; or (xii) a broker as defined in section 6045(c) of the U.S. Internal Revenue Code.

- hh) The term "**Entity**" means a legal person or a legal arrangement such as a trust.
- ii) The term "**Non-U.S. Entity**" means an Entity that is not a U.S. Person.
- jj) The term "**U.S. Source Withholdable Payment**" means any payment of interest (including any original issue discount), dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income, if such payment is from sources within the United States. Notwithstanding the foregoing, a U.S. Source Withholdable Payment does not include any payment that is not treated as a withholdable payment in relevant U.S. Treasury Regulations.
- kk) An Entity is a "**Related Entity**" of another Entity if either Entity controls the other Entity, or the two Entities are under common control. For this purpose control includes direct or indirect ownership of more than 50 percent of the vote or value in an Entity. Notwithstanding the foregoing, Jersey may treat an Entity as not a Related Entity of another Entity if the two Entities are not members of the same expanded affiliated group as defined in section 1471(e)(2) of the U.S. Internal Revenue Code.
- ll) The term "**U.S. TIN**" means a U.S. federal taxpayer identifying number.
- mm) The term "**Controlling Persons**" means the natural persons who exercise control over an Entity. In the case of a trust, such term means the settlor, the trustees, the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust, and in the case of a legal arrangement other than a trust, such term means persons in equivalent or similar positions. The term "Controlling Persons" shall be interpreted in a manner consistent with the Financial Action Task Force Recommendations.

2. Any term not otherwise defined in this Agreement shall, unless the context otherwise requires or the Competent Authorities agree to a common meaning (as permitted by domestic law), have the meaning that it has at that time under the law of the Party applying the Agreement, any meaning under the applicable tax laws of that Party prevailing over a meaning given to the term under other laws of that Party.

Article 2

Obligations to Obtain and Exchange Information with Respect to Reportable Accounts

1. Subject to the provisions of Article 3 of this Agreement, each Party shall obtain the information specified in paragraph 2 of this Article with respect to all Reportable Accounts and shall annually exchange this information with the other Party on an automatic basis pursuant to the provisions of Article [6] of the TIEA.

2. The information to be obtained and exchanged is:

- a) In the case of Jersey with respect to each U.S. Reportable Account of each Reporting Jersey Financial Institution:
 - (1) the name, address, and U.S. TIN of each Specified U.S. Person that is an Account Holder of such account and, in the case of a Non-U.S. Entity that, after application of the due diligence procedures set forth in Annex I, is identified as having one or more Controlling Persons that is a Specified U.S. Person, the name, address, and U.S. TIN (if any) of such entity and each such Specified U.S. Person;
 - (2) the account number (or functional equivalent in the absence of an account number);
 - (3) the name and identifying number of the Reporting Jersey Financial Institution;
 - (4) the account balance or value (including, in the case of a Cash Value Insurance Contract or Annuity Contract, the Cash Value or surrender value) as of the end of the relevant calendar year or other appropriate reporting period or, if the account was closed during such year, immediately before closure;
 - (5) in the case of any Custodial Account:
 - (A) the total gross amount of interest, the total gross amount of dividends, and the total gross amount of other income generated with respect to the assets held in the account, in each case paid or credited to the account (or with respect to the account) during the calendar year or other appropriate reporting period; and
 - (B) the total gross proceeds from the sale or redemption of property paid or credited to the account during the calendar year or other appropriate reporting period with respect to which the

Reporting Jersey Financial Institution acted as a custodian, broker, nominee, or otherwise as an agent for the Account Holder;

- (6) in the case of any Depository Account, the total gross amount of interest paid or credited to the account during the calendar year or other appropriate reporting period; and
 - (7) in the case of any account not described in subparagraph 2(a)(5) or 2(a)(6) of this Article, the total gross amount paid or credited to the Account Holder with respect to the account during the calendar year or other appropriate reporting period with respect to which the Reporting Jersey Financial Institution is the obligor or debtor, including the aggregate amount of any redemption payments made to the Account Holder during the calendar year or other appropriate reporting period.
- b) In the case of the United States, with respect to each Jersey Reportable Account of each Reporting U.S. Financial Institution:
- (1) the name, address, and date of birth of any person that is a resident of Jersey and is an Account Holder of the account;
 - (2) the account number (or the functional equivalent in the absence of an account number);
 - (3) the name and identifying number of the Reporting U.S. Financial Institution;
 - (4) the gross amount of interest paid on a Depository Account;
 - (5) the gross amount of U.S. source dividends paid or credited to the account; and
 - (6) the gross amount of other U.S. source income paid or credited to the account, to the extent subject to reporting under chapter 3 or 61 of subtitle A of the U.S. Internal Revenue Code.

Article 3

Time and Manner of Exchange of Information

1. For purposes of the exchange obligation in Article 2 of this Agreement, the amount and characterization of payments made with respect to a U.S. Reportable Account may be determined in accordance with the principles of Jersey's tax laws, and the amount and characterization of payments made with respect to a Jersey Reportable Account may be determined in accordance with principles of U.S. federal income tax law.

2. For purposes of the exchange obligation in Article 2 of this Agreement, the information exchanged shall identify the currency in which each relevant amount is denominated.



3. With respect to paragraph 2 of Article 2 of this Agreement, information is to be obtained and exchanged with respect to 2013 and all subsequent years, except that:

- a) In the case of Jersey:
 - (1) the information to be obtained and exchanged with respect to 2013 and 2014 is only the information described in subparagraphs 2(a)(1) through 2(a)(4) of Article 2 of this Agreement;
 - (2) the information to be obtained and exchanged with respect to 2015 is the information described in subparagraphs 2(a)(1) through 2(a)(7) of Article 2 of this Agreement, except for gross proceeds described in subparagraph 2(a)(5)(B) of Article 2 of this Agreement; and
 - (3) the information to be obtained and exchanged with respect to 2016 and subsequent years is the information described in subparagraph 2(a)(1) through 2(a)(7) of Article 2 of this Agreement;
- b) In the case of the United States, the information to be obtained and exchanged with respect to 2013 and subsequent years is all of the information identified in subparagraph 2(b) of Article 2 of this Agreement.

4. Notwithstanding paragraph 3 of this Article, with respect to each Reportable Account that is a Preexisting Account, and subject to paragraph 4 of Article 6 of this Agreement:

- a) subject to subparagraph (b) of this paragraph 4, if the U.S. TIN is not in the records of the Reporting Jersey Financial Institution, the date of birth of the relevant person shall be provided; and
- b) the Parties are not required to obtain and include in the exchanged information the date of birth or the U.S. TIN, as applicable, of any relevant person if such date of birth or U.S. TIN is not in the records of the Reporting Financial Institution.

5. Subject to paragraphs 3 and 4 of this Article, the information described in Article 2 of this Agreement shall be exchanged within nine months after the end of the calendar year to which the information relates. Notwithstanding the foregoing, the information that relates to calendar year 2013 shall be exchanged no later than September 30, 2015.

6. The Competent Authorities of Jersey and the United States shall enter into an agreement under the mutual agreement procedure provided for in Article [12] of the TIEA, which shall:

- a) establish the procedures for the automatic exchange obligations described in Article 2 of this Agreement;
- b) prescribe rules and procedures as may be necessary to implement Article 5 of this Agreement; and
- c) establish as necessary procedures for the exchange of the information reported

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under subparagraph 1(b) of Article 4 of this Agreement.

7. All information exchanged shall be subject to the confidentiality and other protections provided for in the TIEA, including the provisions limiting the use of the information exchanged.

Article 4
Application of FATCA to Jersey Financial Institutions

1. Treatment of Reporting Jersey Financial Institutions. Each Reporting Jersey Financial Institution shall be treated as complying with, and not subject to withholding under, section 1471 of the U.S. Internal Revenue Code if Jersey complies with its obligations under Articles 2 and 3 of this Agreement with respect to such Reporting Jersey Financial Institution, and the Reporting Jersey Financial Institution:

- a) identifies U.S. Reportable Accounts and reports annually to the Jersey Competent Authority the information required to be reported in subparagraph 2(a) of Article 2 of this Agreement in the time and manner described in Article 3 of this Agreement;
- b) for each of 2015 and 2016, reports annually to the Jersey Competent Authority the name of each Nonparticipating Financial Institution to which it has made payments and the aggregate amount of such payments;
- c) complies with the registration requirements applicable to Financial Institutions in Partner Jurisdictions;
- d) to the extent that a Reporting Jersey Financial Institution is (i) acting as a qualified intermediary (for purposes of section 1441 of the U.S. Internal Revenue Code) that has elected to assume primary withholding responsibility under chapter 3 of subtitle A of the U.S. Internal Revenue Code, (ii) a foreign partnership that has elected to act as a withholding foreign partnership (for purposes of both sections 1441 and 1471 of the U.S. Internal Revenue Code), or (iii) a foreign trust that has elected to act as a withholding foreign trust (for purposes of both sections 1441 and 1471 of the U.S. Internal Revenue Code), withholds 30 percent of any U.S. Source Withholdable Payment to any Nonparticipating Financial Institution; and
- e) in the case of a Reporting Jersey Financial Institution that is not described in subparagraph 1(d) of this Article and that makes a payment of, or acts as an intermediary with respect to, a U.S. Source Withholdable Payment to any Nonparticipating Financial Institution, the Reporting Jersey Financial Institution provides to any immediate payor of such U.S. Source Withholdable Payment the information required for withholding and reporting to occur with respect to such payment.

Notwithstanding the foregoing, a Reporting Jersey Financial Institution with respect to which the conditions of this paragraph 1 are not satisfied shall not be subject to withholding under section 1471 of the U.S. Internal Revenue Code unless such Reporting Jersey Financial

Institution is identified by the IRS as a Nonparticipating Financial Institution pursuant to subparagraph 2(b) of Article 5 of this Agreement.

2. **Suspension of Rules Relating to Recalcitrant Accounts.** The United States shall not require a Reporting Jersey Financial Institution to withhold tax under section 1471 or 1472 of the U.S. Internal Revenue Code with respect to an account held by a recalcitrant account holder (as defined in section 1471(d)(6) of the U.S. Internal Revenue Code), or to close such account, if the U.S. Competent Authority receives the information set forth in subparagraph 2(a) of Article 2 of this Agreement, subject to the provisions of Article 3 of this Agreement, with respect to such account.

3. **Specific Treatment of Retirement Plans.** The United States shall treat as deemed-compliant FFIs or exempt beneficial owners, as appropriate, for purposes of section 1471 of the U.S. Internal Revenue Code Jersey retirement plans described in Annex II. For this purpose, a Jersey retirement plan includes an Entity established or located in and regulated in Jersey, or a predetermined contractual or legal arrangement, operated to provide pension or retirement benefits or earn income for providing such benefits under the laws of Jersey and regulated with respect to contributions, distributions, reporting, sponsorship, and taxation.

4. **Identification and Treatment of Other Deemed-Compliant FFIs and Exempt Beneficial Owners.** The United States shall treat each Non-Reporting Jersey Financial Institution as a deemed-compliant FFI or as an exempt beneficial owner, as appropriate, for purposes of section 1471 of the U.S. Internal Revenue Code.

5. **Special Rules Regarding Related Entities That Are Nonparticipating Financial Institutions.** If a Jersey Financial Institution, that otherwise meets the requirements of paragraph 1 of this Article or is described in paragraph 3 or 4 of this Article, has a Related Entity or branch that operates in a jurisdiction that prevents such Related Entity or branch from fulfilling the requirements of a participating FFI or deemed-compliant FFI for purposes of section 1471 of the U.S. Internal Revenue Code, such Jersey Financial Institution shall continue to be in compliance with the terms of this Agreement and shall continue to be treated as a deemed-compliant FFI or exempt beneficial owner, as appropriate, for purposes of section 1471 of the U.S. Internal Revenue Code, provided that:

- a) the Jersey Financial Institution treats each such Related Entity or branch as a separate Nonparticipating Financial Institution for purposes of all the reporting and withholding requirements of this Agreement and each such Related Entity or branch identifies itself to withholding agents as a Nonparticipating Financial Institution;
- b) each such Related Entity or branch identifies its U.S. accounts and reports the information with respect to those accounts as required under section 1471 of the U.S. Internal Revenue Code to the extent permitted under the relevant laws pertaining to the Related Entity or branch; and
- c) such Related Entity or branch does not specifically solicit U.S. accounts held by persons that are not resident in the jurisdiction where such Related Entity or branch is located or accounts held by Nonparticipating Financial Institutions that are not established in the jurisdiction where such Related Entity or branch is located, and such Related Entity or branch is not used by the Jersey Financial Institution or any other Related Entity to circumvent the

obligations under this Agreement or under section 1471 of the U.S. Internal Revenue Code, as appropriate.

6. **Coordination of Timing.** Notwithstanding paragraphs 3 and 5 of Article 3 of this Agreement:

- a) Jersey shall not be obligated to obtain and exchange information with respect to a calendar year that is prior to the calendar year with respect to which similar information is required to be reported to the IRS by participating FFIs pursuant to relevant U.S. Treasury Regulations;
- b) Jersey shall not be obligated to begin exchanging information prior to the date by which participating FFIs are required to report similar information to the IRS under relevant U.S. Treasury Regulations;
- c) the United States shall not be obligated to obtain and exchange information with respect to a calendar year that is prior to the first calendar year with respect to which Jersey is required to obtain and exchange information; and
- d) the United States shall not be obligated to begin exchanging information prior to the date by which Jersey is required to begin exchanging information.

7. **Definitions.** Jersey may permit Jersey Financial Institutions to apply a definition in applicable U.S. Treasury Regulations in lieu of a corresponding definition in this Agreement, provided that such application would not frustrate the purposes of this Agreement.

Article 5
Collaboration on Compliance and Enforcement

1. **Minor and Administrative Errors.** Subject to any further terms set forth in a competent authority agreement executed pursuant to paragraph 6 of Article 3 of this Agreement, a Competent Authority may make an inquiry directly to a Reporting Financial Institution in the other jurisdiction where it has reason to believe that administrative errors or other minor errors may have led to incorrect or incomplete information reporting or resulted in other infringements of this Agreement. The competent authority agreement may provide that a Competent Authority shall notify the Competent Authority of the other Party when the first-mentioned Competent Authority makes such an inquiry of a Reporting Financial Institution in the other jurisdiction regarding the Reporting Financial Institution's compliance with the conditions set forth in this Agreement.

2. **Significant Non-Compliance.**

- a) A Competent Authority shall notify the Competent Authority of the other Party when the first-mentioned Competent Authority has determined that there is significant non-compliance with the obligations under this Agreement with respect to a Reporting Financial Institution in the other jurisdiction. The Competent Authority of such other Party shall apply its domestic law (including applicable penalties) to address the significant non-compliance described in the notice.



- b) If, in the case of a Reporting Jersey Financial Institution, such enforcement actions do not resolve the non-compliance within a period of 18 months after notification of significant non-compliance is first provided, the United States shall treat the Reporting Jersey Financial Institution as a Nonparticipating Financial Institution. The IRS shall make available a list of all Reporting Jersey Financial Institutions and other Partner Jurisdiction Financial Institutions that are treated as Nonparticipating Financial Institutions pursuant to this paragraph.
3. **Reliance on Third Party Service Providers.** Each Party may allow Reporting Financial Institutions to use third party service providers to fulfill the obligations imposed on them by a Party, as contemplated in this Agreement, but these obligations shall remain the responsibility of the Reporting Financial Institutions.
4. **Prevention of Avoidance.** The Parties shall implement as necessary requirements to prevent Financial Institutions from adopting practices intended to circumvent the reporting required under this Agreement.

Article 6

Mutual Commitment to Continue to Enhance the Effectiveness of Information Exchange and Transparency

1. **Reciprocity.** The Government of the United States acknowledges the need to achieve equivalent levels of reciprocal automatic information exchange with Jersey. The Government of the United States is committed to further improve transparency and enhance the exchange relationship with Jersey by pursuing the adoption of regulations and advocating and supporting relevant legislation to achieve such equivalent levels of reciprocal automatic information exchange.
2. **Treatment of Passthru Payments and Gross Proceeds.** The Parties are committed to work together, along with Partner Jurisdictions, to develop a practical and effective alternative approach to achieve the policy objectives of foreign passthru payment and gross proceeds withholding that minimizes burden.
3. **Development of Common Reporting and Exchange Model.** The Parties are committed to working with other Partner Jurisdictions and the Organisation for Economic Co-operation and Development, on adapting the terms of this Agreement and other agreements between the United States and Partner Jurisdictions to a common model for automatic exchange of information, including the development of reporting and due diligence standards for financial institutions.
4. **Documentation of Accounts Maintained as of January 1, 2014.** With respect to Reportable Accounts that are Preexisting Accounts maintained by a Reporting Financial Institution:
 - a) The United States commits to establish, by January 1, 2017, for reporting with respect to 2017 and subsequent years, rules requiring Reporting U.S. Financial Institutions to obtain and report the date of birth of each Account Holder of a Jersey Reportable Account as required pursuant to subparagraph 2(b)(1) of Article 2 of this Agreement; and

- b) Jersey commits to establish, by January 1, 2017, for reporting with respect to 2017 and subsequent years, rules requiring Reporting Jersey Financial Institutions to obtain the U.S. TIN of each Specified U.S. Person as required pursuant to subparagraph 2(a)(1) of Article 2 of this Agreement.

Article 7

Consistency in the Application of FATCA to Partner Jurisdictions

1. Jersey shall be granted the benefit of any more favorable terms under Article 4 or Annex I of this Agreement relating to the application of FATCA to Jersey Financial Institutions afforded to another Partner Jurisdiction under a signed bilateral agreement pursuant to which the other Partner Jurisdiction commits to undertake the same obligations as Jersey described in Articles 2 and 3 of this Agreement, and subject to the same terms and conditions as described therein and in Articles 5 through 9 of this Agreement.
2. The United States shall notify Jersey of any such more favorable terms and such more favorable terms shall apply automatically under this Agreement as if such terms were specified in this Agreement and effective as of the date of the entry into force of the agreement incorporating the more favorable terms, unless Jersey declines the application thereof.

Article 8

Consultations and Amendments

1. In case any difficulties in the implementation of this Agreement arise, either Party may request consultations to develop appropriate measures to ensure the fulfillment of this Agreement.
2. This Agreement may be amended by written mutual consent of the Parties. Unless otherwise agreed upon, such an amendment shall enter into force through the same procedures as set forth in paragraph 1 of Article 10 of this Agreement.

Article 9

Annexes

The Annexes form an integral part of this Agreement.

Article 10

Term of Agreement

1. The Parties shall notify each other in writing when their necessary internal procedures for entry into force have been completed. The Agreement shall enter into force on the later of the date of the later of such written notifications, and shall continue in force until terminated.
2. Either Party may terminate the Agreement by giving notice of termination in writing to the other Party. Such termination shall become effective on the first day of the month following the expiration of a period of 12 months after the date of the notice of termination.

3. The Parties shall, prior to December 31, 2016, consult in good faith to amend this Agreement as necessary to reflect progress on the commitments set forth in Article 6 of this Agreement.

In witness whereof, the undersigned, being duly authorized thereto by their respective Governments, have signed this Agreement.

Done at _____, in duplicate, in the English language, both texts being equally authentic, this
__ day of ____, 20__.

FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:



FOR THE GOVERNMENT OF JERSEY:



ANNEX I

**DUE DILIGENCE OBLIGATIONS FOR IDENTIFYING AND REPORTING ON U.S.
REPORTABLE ACCOUNTS AND ON PAYMENTS TO CERTAIN
NONPARTICIPATING FINANCIAL INSTITUTIONS**

I. General

A. Jersey shall require that Reporting Jersey Financial Institutions apply the due diligence procedures contained in this Annex I to identify U.S. Reportable Accounts and accounts held by Nonparticipating Financial Institutions.

B. For purposes of the Agreement,

1. All dollar amounts shall be read to include the equivalent in other currencies.
2. The balance or value of an account shall be determined as of the last day of the calendar year or other appropriate reporting period.
3. Where a balance or value threshold is to be determined as of the last day of a calendar year under this Annex I, the relevant balance or value shall be determined as of the last day of the reporting period that ends with or within that calendar year.
4. Subject to paragraph I.E (1), an account shall be treated as a U.S. Reportable Account beginning as of the date it is identified as such pursuant to the due diligence procedures in this Annex I.
5. Unless otherwise provided, information with respect to a U.S. Reportable Account shall be reported annually in the calendar year following the year to which the information relates.

C. As an alternative to the procedures described in each section of this Annex I, Jersey may allow its Reporting Jersey Financial Institutions to rely on the procedures described in relevant U.S. Treasury Regulations to establish whether an account is a U.S. Reportable Account or an account held by a Nonparticipating Financial Institution.

II. Preexisting Individual Accounts. The following rules and procedures apply for identifying U.S. Reportable Accounts among Preexisting Accounts held by individuals ("Preexisting Individual Accounts").

A. **Accounts Not Required to Be Reviewed, Identified, or Reported.** Unless the Reporting Jersey Financial Institution elects otherwise, where the implementing rules in Jersey provide for such an election, the following accounts are not required to be reviewed, identified, or reported as U.S. Reportable Accounts:

1. Subject to subparagraph E (2) of this section, Preexisting Individual

Accounts with a balance or value that does not exceed \$50,000 as of December 31, 2013.

2. Subject to subparagraph E (2) of this section, Preexisting Individual Accounts that are Cash Value Insurance Contracts and Annuity Contracts with a balance or value of \$250,000 or less as of December 31, 2013.

3. Preexisting Individual Accounts that are Cash Value Insurance Contracts or Annuity Contracts, provided the law or regulations of Jersey or the United States effectively prevents the sale of Cash Value Insurance Contracts or Annuity Contracts to U.S. residents, such as if the relevant Financial Institution does not have the required registration under U.S. law, and the law of Jersey requires reporting or withholding with respect to insurance products held by residents of Jersey.

4. Any Depository Account with a balance or value of \$50,000 or less.

B. Review Procedures for Preexisting Individual Accounts With a Balance or Value as of December 31, 2013, that Exceeds \$50,000 (\$250,000 for a Cash Value Insurance Contract or Annuity Contract), But Does Not Exceed \$1,000,000 ("Lower Value Accounts")

1. **Electronic Record Search.** The Reporting Jersey Financial Institution must review electronically searchable data maintained by the Reporting Jersey Financial Institution for any of the following U.S. indicia:

- a) Identification of the Account Holder as a U.S. citizen or resident;
- b) Unambiguous indication of a U.S. place of birth;
- c) Current U.S. mailing or residence address (including a U.S. post office box or U.S. "in-care-of" address);
- d) Current U.S. telephone number;
- e) Standing instructions to transfer funds to an account maintained in the United States;
- f) Currently effective power of attorney or signatory authority granted to a person with a U.S. address; or
- g) An "in-care-of" or "hold mail" address that is the *sole* address the Reporting Jersey Financial Institution has on file for the Account Holder. In the case of a Preexisting Individual Account that is a Lower Value Account, an "in-care-of" address outside the United States shall not be treated as U.S. indicia.

2. If none of the U.S. indicia listed in subparagraph B (1) of this section are discovered in the electronic search, then no further action is required until

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there is a change in circumstances described in subparagraph C (2) of this section with respect to the account that results in one or more U.S. indicia being associated with the account.

3. If any of the U.S. indicia in subparagraph B (1) of this section are discovered in the electronic search, then the Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account unless it elects to apply subparagraph B (4) of this section and one of the exceptions in such subparagraph applies with respect to that account.

4. Notwithstanding a finding of U.S. indicia under subparagraph B (1) of this section, a Reporting Jersey Financial Institution is not required to treat an account as a U.S. Reportable Account if:

a) Where Account Holder information unambiguously indicates a ***U.S. place of birth***, the Reporting Jersey Financial Institution obtains or has previously reviewed and maintains a record of:

(1) a self-certification that the Account Holder is neither a U.S. citizen nor a U.S. resident for tax purposes (which may be on an IRS Form W-8 or other similar agreed form);

(2) a non-U.S. passport or other government-issued identification evidencing the Account Holder's citizenship or nationality in a country other than the United States; ***and***

(3) a copy of the account holder's Certificate of Loss of Nationality of the United States or a reasonable explanation of:

(a) the reason the Account Holder does not have such a certificate despite renouncing U.S. citizenship;
or

(b) the reason the Account Holder did not obtain U.S. citizenship at birth.

b) Where Account Holder information contains a ***current U.S. mailing or residence address, or one or more U.S. telephone numbers that are the only telephone numbers associated with the account***, the Reporting Jersey Financial Institution obtains or has previously reviewed and maintains a record of:

(1) a self-certification that the Account Holder is not a U.S. citizen or resident for tax purposes (which may be on an IRS Form W-8 or other similar agreed form); ***and***

(2) a non-U.S. passport or other government-issued identification evidencing the Account Holder's citizenship or nationality in a country other than the United States.

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c) Where Account Holder information contains *standing instructions to transfer funds to an account maintained in the United States*, the Reporting Jersey Financial Institution obtains or has previously reviewed and maintains a record of:

(1) a self-certification that the Account Holder is not a U.S. citizen or resident for tax purposes (which may be on an IRS Form W-8 or other similar agreed form); **and**

(2) documentary evidence, as defined in paragraph VI.D of this Annex I, establishing the account holder's non-U.S. status.

d) Where Account Holder information contains *a currently effective power of attorney or signatory authority granted to a person with a U.S. address, has an "in care of" address or "hold mail" address that is the sole address identified for the Account Holder, or has one or more U.S. telephone numbers (if a non-U.S. telephone number is also associated with the account)*, the Reporting Jersey Financial Institution obtains or has previously reviewed and maintains a record of:

(1) a self-certification that the Account Holder is not a U.S. citizen or resident for tax purposes (which may be on an IRS Form W-8 or other similar agreed form); **or**

(2) documentary evidence, as defined in paragraph VI.D of this Annex I, establishing the Account Holder's non-U.S. status.

C. **Additional Procedures Applicable to Preexisting Individual Accounts That Are Lower Value Accounts**

1. Review of Preexisting Individual Accounts that are Lower Value Accounts for U.S. indicia must be completed by December 31, 2015.

2. If there is a change of circumstances with respect to a Preexisting Individual Account that is a Lower Value Account that results in one or more U.S. indicia described in subparagraph B (1) of this section being associated with the account, then Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account unless subparagraph B (4) of this section applies.

3. Except for Depository Accounts described in subparagraph A (4) of this section, any Preexisting Individual Account that has been identified as a U.S. Reportable Account under this section shall be treated as a U.S. Reportable Account in all subsequent years, unless the Account Holder ceases to be a Specified U.S. Person.

D. **Enhanced Review Procedures for Preexisting Individual Accounts With a Balance or Value That Exceeds \$1,000,000 as of December 31, 2013, or December 31 of Any Subsequent Year ("High-Value Accounts")**



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1. **Electronic Record Search.** The Reporting Jersey Financial Institution must review electronically searchable data maintained by the Reporting Jersey Financial Institution for any of the U.S. indicia identified in subparagraph B (1) of this section.

2. **Paper Record Search.** If the Reporting Jersey Financial Institution's electronically searchable databases include fields for and capture all of the information identified in subparagraph D (3) of this section, then no further paper record search is required. If the electronic databases do not capture all of this information, then with respect to High Value Accounts, the Reporting Jersey Financial Institution must also review the current customer master file and, to the extent not contained in the current customer master file, the following documents associated with the account and obtained by the Reporting Jersey Financial Institution within the last five years for any of the U.S. indicia identified in subparagraph B (1) of this section:

- a) the most recent documentary evidence collected with respect to the account;
- b) the most recent account opening contract or documentation;
- c) the most recent documentation obtained by the Reporting Jersey Financial Institution pursuant to AML/KYC Procedures or for other regulatory purposes;
- d) any power of attorney or signature authority forms currently in effect; and
- e) any standing instructions to transfer funds currently in effect.

3. **Exception Where Databases Contain Sufficient Information.** A Reporting Jersey Financial Institution is not required to perform the paper record search described in subparagraph D (2) of this section if the Reporting Jersey Financial Institution's electronically searchable information includes the following:

- a) the Account Holder's nationality or residence status;
- b) the Account Holder's residence address and mailing address currently on file with the Reporting Jersey Financial Institution;
- c) the Account Holder's telephone number(s) currently on file, if any, with the Reporting Jersey Financial Institution;
- d) whether there are standing instructions to transfer funds in the account to another account (including an account at another branch of the Reporting Jersey Financial Institution or another Financial Institution);

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e) whether there is a current "in care of" address or "hold mail" address for the Account Holder; *and*

f) whether there is any power of attorney or signatory authority for the account.

4. **Relationship Manager Inquiry for Actual Knowledge.** In addition to the electronic and paper record searches described above, the Reporting Jersey Financial Institution must treat as U.S. Reportable Accounts any High Value Accounts assigned to a relationship manager (including any accounts aggregated with such account) if the relationship manager has actual knowledge that the Account Holder is a Specified U.S. Person.

5. **Effect of Finding U.S. Indicia**

a) If none of the U.S. indicia listed in subparagraph B (1) of this section are discovered in the enhanced review of High Value Accounts described above, and the account is not identified as held by a Specified U.S. Person in subparagraph D (4) of this section, then no further action is required until there is a change in circumstances described in subparagraph E (4) of this section.

b) If any of the U.S. indicia listed in subparagraph B (1) of this section are discovered in the enhanced review of High Value Accounts described above, or if there is a subsequent change in circumstances that results in one or more U.S. indicia being associated with the account, then the Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account unless subparagraph B (4) of this section applies.

c) Except for Depository Accounts described in paragraph A (4) of this section, any Preexisting Individual Account that has been identified as a U.S. Reportable Account under this section shall be treated as a U.S. Reportable Account in all subsequent years, unless the Account Holder ceases to be a Specified U.S. Person.

E. **Additional Procedures Applicable to High Value Accounts**

1. If a Preexisting Individual Account is a High Value Account as of December 31, 2013, the Reporting Jersey Financial Institution must complete the enhanced review procedures described in paragraph D of this section with respect to such account by December 31, 2014. If based on this review such account is identified as a U.S. Reportable Account, the Reporting Jersey Financial Institution must report the required information about such account with respect to 2013 and 2014 in the first report on the Account. For all subsequent years, information about the account should be reported on an annual basis.

2. If a Preexisting Individual Account is not a High Value Account as of December 31, 2013, but becomes a High Value Account as of the last day of a

subsequent calendar year, the Reporting Jersey Financial Institution must complete the enhanced review procedures described in paragraph D of this section with respect to such account within six months after the last day of the calendar year in which the account becomes a High Value Account. If based on this review such account is identified as a U.S. Reportable Account, the Reporting Jersey Financial Institution must report the required information about such account with respect to the year in which it is identified as a U.S. Reportable Account and subsequent years on an annual basis.

3. Once a Reporting Jersey Financial Institution applies the enhanced review procedures set forth above to a High Value Account, the Reporting Jersey Financial Institution shall not be required to re-apply such procedures, other than the relationship manager inquiry in subparagraph D (4) of this section, to the same High Value Account in any subsequent year.

4. If there is a change of circumstances with respect to a High Value Account that results in one or more U.S. indicia described in subparagraph B (1) of this section being associated with the account, then the Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account unless subparagraph B (4) of this section applies.

5. A Reporting Jersey Financial Institution must implement procedures to ensure that a relationship manager identifies any change in circumstances of an account. For example, if a relationship manager is notified that the Account Holder has a new mailing address in the United States, the Reporting Jersey Financial Institution shall be required to treat the new address as a change in circumstances and shall be required to obtain the appropriate documentation from the Account Holder.

III. **New Individual Accounts.** The following rules and procedures apply for identifying U.S. Reportable Accounts among accounts held by individuals and opened on or after January 1, 2014 ("New Individual Accounts").

A. **Accounts Not Required to Be Reviewed, Identified or Reported.** Unless the Reporting Jersey Financial Institution elects otherwise where the implementing rules in Jersey provide for such an election:

1. A New Individual Account that is a Depository Account is not required to be reviewed, identified, or reported as a U.S. Reportable Account unless the account balance exceeds \$50,000 at the end of any calendar year or other appropriate reporting period.

2. A New Individual Account that is a Cash Value Insurance Contract is not required to be reviewed, identified, or reported as a U.S. Reportable Account unless the Cash Value exceeds \$50,000 at the end of any calendar year or other appropriate reporting period.

B. **Other New Individual Accounts.** With respect to New Individual Accounts not described in paragraph A of this section, upon account opening (or within 90 days after the end of the calendar year in which the account ceases to be described in

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Paragraph A of this section), the Reporting Jersey Financial Institution must obtain a self-certification which may be part of the account opening documentation, that allows the Reporting Jersey Financial Institution to determine whether the Account Holder is resident in the United States for tax purposes (for this purpose, a U.S. citizen is considered to be resident in the United States for tax purposes, even if the Account Holder is also a tax resident of another country) and confirm the reasonableness of such self-certification based on the information obtained by the Reporting Jersey Financial Institution in connection with the opening of the account, including any documentation collected pursuant to AML/KYC Procedures.

C. If the self-certification establishes that the account holder is resident in the United States for tax purposes, the Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account and obtain a self-certification that includes the Account Holder's U.S. TIN (which may be an IRS Form W-9 or other similar agreed form).

D. If there is a change of circumstances with respect to a New Individual Account that causes the Reporting Jersey Financial Institution to know or have reason to know that the original self-certification is incorrect or unreliable, the Reporting Jersey Financial Institution cannot rely on the original self-certification and must obtain a valid self-certification that establishes whether the Account Holder is a U.S. citizen or resident for U.S. tax purposes. If the Reporting Jersey Financial Institution is unable to obtain a valid self-certification, the Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account.

IV. **Preexisting Entity Accounts.** The following rules and procedures apply for purposes of identifying U.S. Reportable Accounts and accounts held by Nonparticipating Financial Institutions among Preexisting Accounts held by entities ("Preexisting Entity Accounts").

A. **Entity Accounts Not Required to Be Reviewed, Identified or Reported.** Unless the Reporting Jersey Financial Institution elects otherwise, where the implementing rules in Jersey provide for such an election, Preexisting Entity Accounts with account balances that do not exceed \$250,000 as of December 31, 2013, are not required to be reviewed, identified, or reported as U.S. Reportable Accounts until the account balance exceeds \$1,000,000.

B. **Entity Accounts Subject to Review.** Preexisting Entity Accounts that have an account balance or value that exceeds \$250,000 as of December 31, 2013, and Preexisting Entity Accounts that initially do not exceed \$250,000 but the account balance of which later exceeds \$1,000,000 must be reviewed in accordance with the procedures set forth in paragraph D of this section.

C. **Entity Accounts With Respect to Which Reporting is Required.** With respect to Preexisting Entity Accounts described in paragraph B of this section, only accounts that are held by one or more entities that are Specified U.S. Persons, or by Passive NFFEs with one or more Controlling Persons who are U.S. citizens or residents shall be treated as U.S. Reportable Accounts. In addition, accounts held by Nonparticipating Financial Institutions shall be treated as accounts for which aggregate payments as described in paragraph 1(b) of Article 4 of the Agreement are

reported to the Jersey Competent Authority.

D. Review Procedures for Identifying Entity Accounts With Respect to Which Reporting is Required. For Preexisting Entity Accounts described in paragraph B of this section, the Reporting Jersey Financial Institution must apply the following review procedures to determine whether the account is held by one or more Specified U.S. Persons, by Passive NFFEs with one or more Controlling Persons who are U.S. citizens or residents, or by a Nonparticipating Financial Institution:

1. Determine Whether the Entity is a Specified U.S. Person.

- a) Review information maintained for regulatory or customer relationship purposes (including information collected pursuant to AML/KYC Procedures) to determine whether the information indicates that the Entity Account Holder is a U.S. Person. For this purpose, information indicating that the entity is a U.S. Person includes a U.S. place of incorporation or organization, or a U.S. address.
- b) If the information indicates that the Entity Account Holder is a U.S. Person, the Reporting Jersey Financial Institution must treat the account as a U.S. Reportable Account unless it obtains a self-certification from the Account Holder (which may be on an IRS Form W-8 or W-9, or a similar agreed form), or reasonably determines based on information in its possession or that is publicly available, that the Account Holder is not a Specified U.S. Person.

2. Determine Whether a Non-U.S. Entity is a Financial Institution.

- a) Review information maintained for regulatory or customer relationship purposes (including information collected pursuant to AML/KYC Procedures) to determine whether the information indicates that the Entity Account Holder is a Financial Institution.
- b) If the information indicates that the Entity Account Holder is a Financial Institution, then the account is not a U.S. Reportable Account.

3. Determine Whether a Financial Institution is a Nonparticipating Financial Institution Payments to Which Are Subject to Aggregate Reporting Under Paragraph 1(b) of Article 4 of the Agreement.

- a) Subject to subparagraph (b) of this paragraph, if the Account Holder is a Jersey Financial Institution or other Partner Jurisdiction Financial Institution, then no further review, identification, or reporting is required with respect to the account.
- b) A Jersey Financial Institution or other Partner Jurisdiction Financial Institution shall be treated as a Nonparticipating Financial Institution if it is identified as such by the IRS pursuant to paragraph 2 of Article 5 of the Agreement.

c) If the Account Holder is not a Jersey Financial Institution or other Partner Jurisdiction Financial Institution, then the Reporting Jersey Financial Institution must treat the entity as a Nonparticipating Financial Institution payments to which are reportable under paragraph 1(b) of Article 4 of the Agreement, unless the Reporting Jersey Financial Institution:

(1) Obtains a self-certification (which may be on an IRS Form W-8 or similar agreed form) from the entity that it is a certified deemed-compliant FFI, an exempt beneficial owner, or an excepted FFI, as those terms are defined in relevant U.S. Treasury Regulations; *or*

(2) In the case of a participating FFI or registered deemed-compliant FFI, verifies the entity's FATCA identifying number on a published IRS FFI list.

4. **Determine Whether an Account Held by an NFFE Is a U.S. Reportable Account.** With respect to an Account Holder of a Preexisting Entity Account that is not identified as either a U.S. Person or a Financial Institution, the Reporting Jersey Financial Institution must identify (i) whether the entity has Controlling Persons, (ii) whether the entity is a Passive NFFE, and (iii) whether any of the Controlling Persons of the entity is a citizen or resident of the United States. In making these determinations the Reporting Jersey Financial Institution should follow the guidance in sub-paragraphs (a) through (d) of this paragraph in the order most appropriate under the circumstances.

a) For purposes of determining the Controlling Persons of an entity, a Reporting Jersey Financial Institution may rely on information collected and maintained pursuant to AML/KYC Procedures.

b) For purposes of determining whether the entity is a Passive NFFE, the Reporting Jersey Financial Institution must obtain a self-certification (which may be on an IRS Form W-8 or W-9, or on a similar agreed form) from the Account Holder to establish its status, unless it has information in its possession or that is publicly available, based on which it can reasonably determine that the entity is an Active NFFE.

c) For purposes of determining whether a Controlling Person of a Passive NFFE is a citizen or resident of the United States for tax purposes, a Reporting Jersey Financial Institution may rely on:

(1) Information collected and maintained pursuant to AML/KYC Procedures in the case of a Preexisting Entity Account held by one or more NFFEs with an account balance that does not exceed \$1,000,000; *or*

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(2) A self-certification (which may be on an IRS Form W-8 or W-9, or on a similar agreed form) from the account holder or such Controlling Person in the case of a Preexisting Entity Account held by one or more NFFEs with an account balance that exceeds \$1,000,000.

d) If any Controlling Person of a Passive NFFE is a citizen or resident of the United States, the account shall be treated as a U.S. Reportable Account.

E. **Timing of Review and Additional Procedures Applicable to Preexisting Entity Accounts**

1. Review of Preexisting Entity Accounts with an account balance or value that exceeds \$250,000 as of December 31, 2013, must be completed by December 31, 2015.
2. Review of Preexisting Entity Accounts with a balance or value that does not exceed \$250,000 as of December 31, 2013, but exceeds \$1,000,000 as of December 31 of a subsequent year, must be completed within six months after the end of the calendar year in which the account balance exceeds \$1,000,000.
3. If there is a change of circumstances with respect to a Preexisting Entity Account that causes the Reporting Jersey Financial Institution to know or have reason to know that the self-certification or other documentation associated with an account is incorrect or unreliable, the Reporting Jersey Financial Institution must redetermine the status of the account in accordance with the procedures set forth in paragraph D of this section.

V. **New Entity Accounts.** The following rules and procedures apply to accounts held by entities and opened on or after January 1, 2014 ("New Entity Accounts").

- A. The Reporting Jersey Financial Institution must determine whether the Account Holder is: (i) a Specified U.S. Person; (ii) a Jersey Financial Institution or other Partner Jurisdiction Financial Institution; (iii) a participating FFI, a deemed-compliant FFI, an exempt beneficial owner, or an excepted FFI, as those terms are defined in relevant U.S. Treasury Regulations; or (iv) an Active NFFE or Passive NFFE.
- B. A Reporting Jersey Financial Institution may determine that an Account Holder is an Active NFFE, a Jersey Financial Institution, or other Partner Jurisdiction Financial Institution if the Reporting Jersey Financial Institution reasonably determines that the entity has such status on the basis of information that is publicly available or in the possession of the Reporting Jersey Financial Institution.
- C. In all other cases, a Reporting Jersey Financial Institution must obtain a self-certification from the Account Holder to establish the Account Holder's status.
 1. If the Entity Account Holder is a *Specified U.S. Person*, the Reporting

Jersey Financial Institution must treat the account as a U.S. Reportable Account.

2. If the Entity Account Holder is a *Passive NFFE*, the Reporting Jersey Financial Institution must identify the Controlling Persons as determined under AML/KYC Procedures, and must determine whether any such person is a citizen or resident of the United States on the basis of a self-certification from the Account Holder or such person. If any such person is a citizen or resident of the United States, the account shall be treated as a U.S. Reportable Account.

3. If the Entity Account Holder is: (i) a U.S. Person that is not a Specified U.S. Person; (ii) subject to subparagraph C (4) of this section, a Jersey Financial Institution or other Partner Jurisdiction Financial Institution; (iii) a participating FFI, a deemed-compliant FFI, an exempt beneficial owner, or an excepted FFI, as those terms are defined in relevant U.S. Treasury Regulations; (iv) an Active NFFE; or (v) a Passive NFFE none of the Controlling Persons of which is a U.S. citizen or resident, then the account is not a U.S. Reportable Account and no reporting is required with respect to the account.

4. If the Entity Account Holder is a Nonparticipating Financial Institution (including a Jersey Financial Institution or other Partner Jurisdiction Financial Institution that is identified by the IRS as a Nonparticipating Financial Institution pursuant to paragraph 2 of Article 5 of the Agreement), then the account is not a U.S. Reportable Account, but payments to the account holder must be reported as contemplated in paragraph 1(b) of Article 4 of the Agreement.

VI. **Special Rules and Definitions.** The following additional rules and definitions apply in implementing the due diligence procedures described above:

A. **Reliance on Self-Certifications and Documentary Evidence.** A Reporting Jersey Financial Institution may not rely on a self-certification or documentary evidence if the Reporting Jersey Financial Institution knows or has reason to know that the self-certification or documentary evidence is incorrect or unreliable.

B. **Definitions.** The following definitions apply for purposes of this Annex I.

1. **AML/KYC Procedures.** "AML/KYC Procedures" means the customer due diligence procedures of a Reporting Jersey Financial Institution pursuant to the anti-money laundering or similar requirements of Jersey to which such Reporting Jersey Financial Institution is subject.

2. **NFFE.** An "NFFE" means any Non-U.S. Entity that is not an FFI as defined in relevant U.S. Treasury Regulations, and also includes any Non-U.S. Entity that is resident in Jersey or other Partner Jurisdiction and that is not a Financial Institution.

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3. **Passive NFFE.** A "Passive NFFE" means any NFFE that is not (i) an Active NFFE or (ii) a withholding foreign partnership or withholding foreign trust pursuant to relevant U.S. Treasury Regulations.
4. **Active NFFE.** An "Active NFFE" means any NFFE that meets any of the following criteria:
 - a) Less than 50 percent of the NFFE's gross income for the preceding calendar year or other appropriate reporting period is passive income and less than 50 percent of the assets held by the NFFE during the preceding calendar year or other appropriate reporting period are assets that produce or are held for the production of passive income;
 - b) The stock of the NFFE is regularly traded on an established securities market or the NFFE is a Related Entity of an Entity the stock of which is traded on an established securities market;
 - c) The NFFE is organized in a U.S. Territory and all of the owners of the payee are bona fide residents of that U.S. Territory;
 - d) The NFFE is a non-U.S. government, a government of a U.S. Territory, an international organization, a non-U.S. central bank of issue, or an Entity wholly owned by one or more of the foregoing;
 - e) Substantially all of the activities of the NFFE consist of holding (in whole or in part) the outstanding stock of, and providing financing and services to, one or more subsidiaries that engage in trades or businesses other than the business of a Financial Institution, except that an NFFE shall not qualify for this status if the NFFE functions (or holds itself out) as an investment fund, such as a private equity fund, venture capital fund, leveraged buyout fund or any investment vehicle whose purpose is to acquire or fund companies and then hold interests in those companies as capital assets for investment purposes;
 - f) The NFFE is not yet operating a business and has no prior operating history, but is investing capital into assets with the intent to operate a business other than that of a Financial Institution; provided, that the NFFE shall not qualify for this exception after the date that is 24 months after the date of the initial organization of the NFFE;
 - g) The NFFE was not a Financial Institution in the past five years, and is in the process of liquidating its assets or is reorganizing with the intent to continue or recommence operations in a business other than that of a Financial Institution;
 - h) The NFFE primarily engages in financing and hedging transactions with or for Related Entities that are not Financial Institutions, and

does not provide financing or hedging services to any Entity that is not a Related Entity, provided that the group of any such Related Entities is primarily engaged in a business other than that of a Financial Institution; *or*

- i) The NFFE meets all of the following requirements:
- i. It is established and maintained in its country of residence exclusively for religious, charitable, scientific, artistic, cultural, or educational purposes;
 - ii. It is exempt from income tax in its country of residence;
 - iii. It has no shareholders or members who have a proprietary or beneficial interest in its income or assets;
 - iv. The applicable laws of the Entity's country of residence or the Entity's formation documents do not permit any income or assets of the Entity to be distributed to, or applied for the benefit of, a private person or non-charitable Entity other than pursuant to the conduct of the Entity's charitable activities, or as payment of reasonable compensation for services rendered, or as payment representing the fair market value of property which the Entity has purchased; *and*
 - v. The applicable laws of the Entity's country of residence or the Entity's formation documents require that, upon the Entity's liquidation or dissolution, all of its assets be distributed to a governmental Entity or other non-profit organization, or escheat to the government of the Entity's country of residence or any political subdivision thereof.

C. Account Balance Aggregation and Currency Translation Rules

1. Aggregation of Individual Accounts. For purposes of determining the aggregate balance or value of accounts held by an individual, a Reporting Jersey Financial Institution shall be required to aggregate all accounts maintained by the Reporting Jersey Financial Institution, or Related Entities, but only to the extent that the Reporting Jersey Financial Institution's computerized systems link the accounts by reference to a data element such as client number or taxpayer identification number, and allow account balances to be aggregated. Each holder of a jointly held account shall be attributed the entire balance or value of the jointly held account for purposes of applying the aggregation requirements described in this paragraph.

2. Aggregation of Entity Accounts. For purposes of determining the aggregate balance or value of accounts held by an Entity, a Reporting Jersey Financial Institution shall be required to take into account all accounts held by Entities that are maintained by the Reporting Jersey Financial Institution, or Related Entities, to the extent that the Reporting Jersey Financial Institution's computerized systems link the accounts by reference to a data element such as



client number or taxpayer identification number and allow account balances to be aggregated.

3. **Special Aggregation Rule Applicable to Relationship Managers.**

For purposes of determining the aggregate balance or value of accounts held by a person to determine whether an account is a High Value Account, a Reporting Jersey Financial Institution shall also be required, in the case of any accounts that a relationship manager knows or has reason to know are directly or indirectly owned, controlled, or established (other than in a fiduciary capacity) by the same person, to aggregate all such accounts.

4. **Currency Translation Rule.** For purposes of determining the balance or value of accounts denominated in a currency other than the U.S. dollar, a Reporting Jersey Financial Institution must convert the dollar threshold amounts described in this Annex I into such currency using a published spot rate determined as of the last day of the calendar year preceding the year in which the Reporting Jersey Financial Institution is determining the balance or value.

D. **Documentary Evidence.** For purposes of this Annex I, acceptable documentary evidence includes any of the following:

1. A certificate of residence issued by an appropriate tax official of the country in which the payee claims to be a resident.
2. With respect to an individual, any valid identification issued by an authorized government body (for example, a government or agency thereof, or a municipality), that includes the individual's name and is typically used for identification purposes.
3. With respect to an Entity, any official documentation issued by an authorized government body (for example, a government or agency thereof, or a municipality) that includes the name of the Entity and either the address of its principal office in the country (or U.S. Territory) in which it claims to be a resident or the country (or U.S. Territory) in which the Entity was incorporated or organized.
4. With respect to an account maintained in a jurisdiction with anti-money laundering rules that have been approved by the IRS in connection with a QI agreement (as described in relevant U.S. Treasury Regulations), any of the documents other than a Form W-8 or W-9 referenced in the jurisdiction's attachment to the QI agreement for identifying individuals or entities.
5. Any financial statement, third-party credit report, bankruptcy filing, or U.S. Securities and Exchange Commission report.

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The Puppet Masters

**How the Corrupt Use Legal
Structures to Hide Stolen Assets
and What to Do About It**

Emile van der Does de Willebois

Emily M. Halter

Robert A. Harrison

Ji Won Park

J. C. Sharman



Stolen Asset Recovery Initiative

The World Bank • UNODC



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BOX 4.1 The Jersey Model

Conditions under which the company registry can be considered a viable option for providing beneficial ownership information

Condition 1. The registry is active and alert, that is, it verifies the information supplied to it, or checks it for accuracy (can be based on risk).

- *Beneficial ownership information provided at the time of application is checked against an external database (see World-Check, <http://www.world-check.com/>) and an internal regulatory database. Applicants often need to be (and in practice frequently are) asked to provide additional information.*
- *Jersey publishes a list of activities that they consider to be "sensitive." They make it clear that, in cases in which a company intends to be conducting any of these activities, more information must be provided at the time of application for incorporation. This policy is currently being reviewed, and its scope is likely to be extended to take account of the countries in which the company will conduct its activities and the parties with whom the company will be engaging in those activities.*

Condition 2. The registry enforces compliance with legal registration requirements and with updating requirements when information changes.

Trust companies that fail to provide adequate information and that otherwise fail to comply with obligations set forth in the Companies Law are brought to light in the extensive dialogue that takes place between the Registry and the Trust Company Business division. Only trust companies regulated by the Jersey Financial Services Commission and Jersey-resident individuals are able to file applications to incorporate a Jersey company.

Condition 3. The registry (particularly the staff responsible for reviewing and approving information for acceptance into the registry) is sufficiently expert and knowledgeable on the concept of beneficial ownership and knows how to identify, in a complex corporate structure, the natural person who is the beneficial owner. If the registry is unable to internalize such specialized experience, a simplified definition of beneficial owner (focusing on percentage shareholding or possibly the natural person with the largest share or controlling stake) might be preferable.

- *Applications for registration can be approved only at the director level, where there is sufficient experience to understand beneficial ownership. Jersey recently created a new deputy director post in the Registry to strengthen experience within the division.*

Sources: Authors' interview with Jersey Financial Services Commission. See also Companies (Jersey) Law 1991, available at <http://www.jerseyfsc.org/registry/legislation/index.asp>.



JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

Financial Services Industry - Quarterly Report Period Ended 31st December 2012

This Quarterly Report is produced by Jersey Finance, the representative body for the Finance Industry in Jersey. The Report is based upon statistical information collated and prepared by the Jersey Financial Services Commission, supplemented by comments from Jersey Finance. More detailed statistical information for the quarter is attached in Appendices 1-4.

Executive Summary

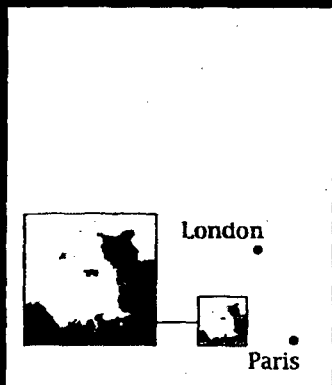
- The total value of banking deposits held in Jersey increased by £3.4bn from £148.7bn to £152.1bn during the fourth quarter of 2012.
- The net asset value of funds under administration increased by £3.3bn from £189.5bn to £192.8bn during Q4 2012. The total number of regulated funds decreased by 4 from 1,392 to 1,388 over the same period. The total number of unregulated funds increased by 7 from 175 to 182 during the fourth quarter.
- The value of total funds under investment management increased by £0.3bn from £20.9bn to £21.2bn during the fourth quarter of 2012.
- The total number of live companies stood at 32,503 at the end of December 2012.

Geoff Cook, Chief Executive of Jersey Finance, commented:

" Jersey's finance industry performance remained steady in the twelve months ended December 2012, and with both bank deposits and the total net asset value of funds under administration increasing in the final quarter there are positive signs for the year ahead. The investment management sector is also showing stable business results.

Banking deposits increased by 2.3% with sterling deposits representing 36.9% and currency deposits 63.1% of the total of deposits. The majority of Jersey's depositors (57.7%) are based outside the CI and the UK, with 20% originating from European non-EU countries and 13% from the Middle East. Jersey has a robust long-term strategy in place to reinforce its position as a first choice centre for deposits. The focus for 2013 and beyond continues to be on business development in our key markets with a very strong team in place and a healthy pipeline of new business reported.

In the funds sector, the net asset value of specialist funds saw the biggest increase by £2.3bn, with the value of private equity funds growing by 2.2% and the value of hedge funds increasing by 2%. Jersey is also well on track with the implementation of the AIFMD regime and remains a first choice jurisdiction for fund managers and funds."



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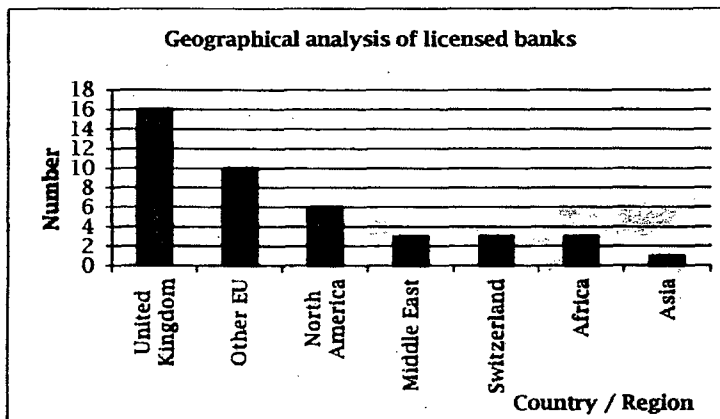
Statistical Information

1. Banking Sector

Registered banks

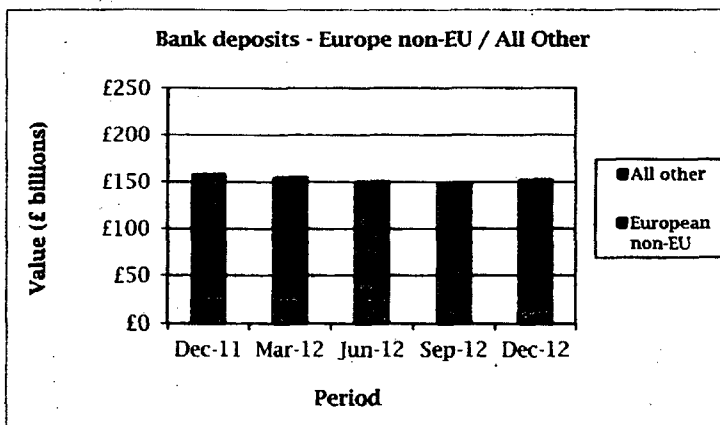
There were 42 banks registered in Jersey as at 31st December 2012. The geographical analysis of registered banks (based on the jurisdiction of the ultimate parent company) is as follows:

Figure 1 - Geographical analysis of registered banks as at 31st December 2012

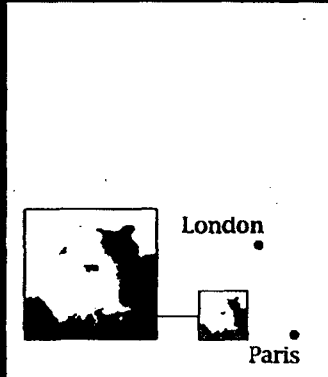


Bank Deposits

Figure 2 - Analysis of Bank Deposits as at 31st December 2012¹



¹ Deposits are analysed between deposits from 'European non-EU Members' and other deposits. The reason for this split is that 'European non-EU Members' includes a significant element of wholesale fiduciary deposits on which margins are much lower than on other types of deposits.



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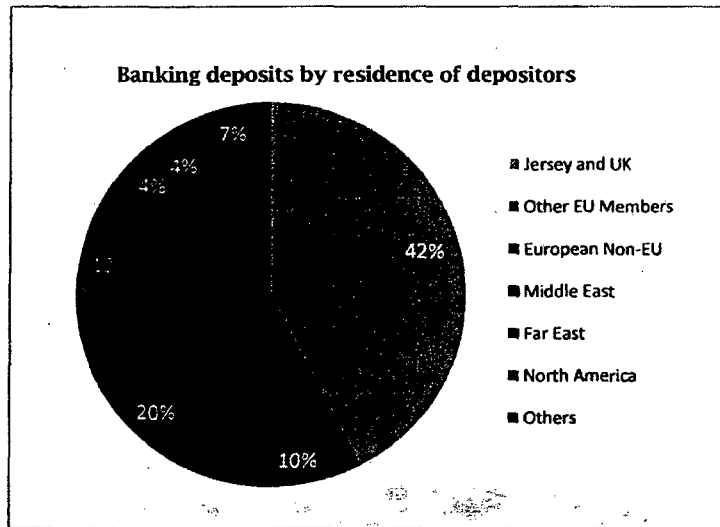
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Pie chart 1 - Analysis of deposits by residence of depositors as at 31st December 2012



2. Funds and Fund Management

Introduction

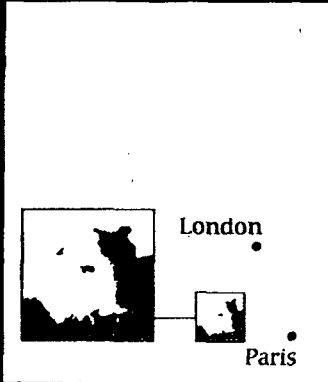
The following data includes both Jersey and non-Jersey domiciled funds administered in Jersey. However, excluded from the analyses are collective investment funds for which the only services provided in Jersey are distribution or similarly minor activities, as such these funds are regarded as non-Jersey funds.

The data also include funds established under the Control of Borrowing (Jersey) Order 1958 ('COBO'). COBO funds are private schemes with fewer than 51 offers which do not require a permit under CIF Law, but which do require an initial regulatory consent in the form of a consent granted under COBO.

Key statistics

The last quarter of 2012 the net asset value of funds increased by £3.3bn from £189.5bn to £192.8bn. The total number of regulated funds decreased by 4 from 1,392 to 1,388.

The data does not include funds established under the Unregulated Funds Regime, of which there were 182 by the end of the period.



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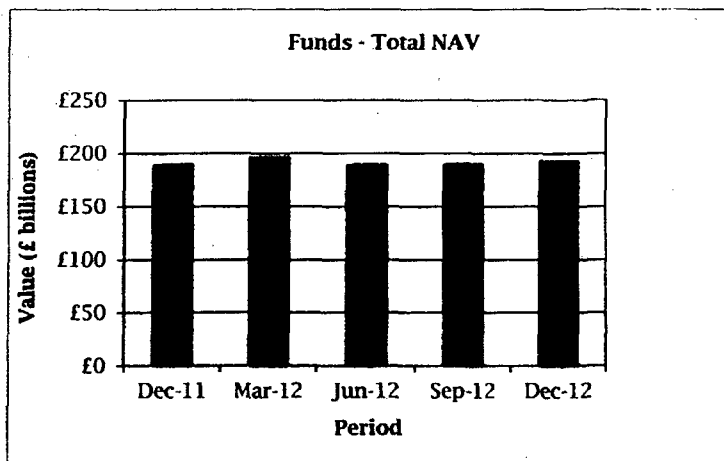
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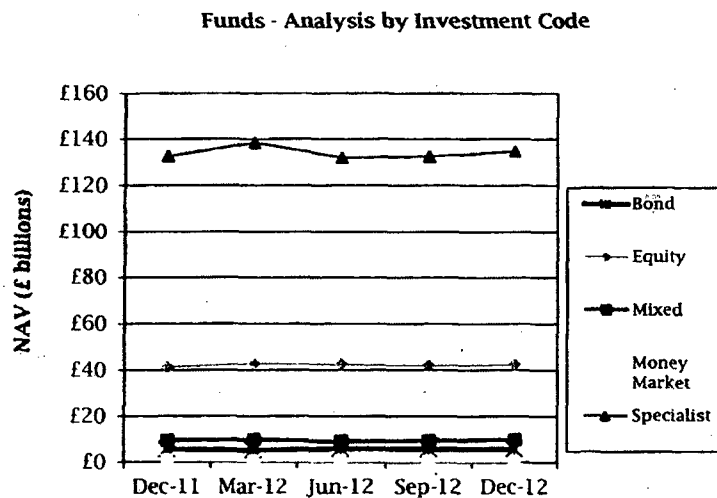
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Figure 3 - Net Asset Value - All Funds as at 31st December 2012



Analysis by Investment Policy Code (Asset Class)

Figure 4 - Analysis of Funds by Investment Code as at 31st December 2012



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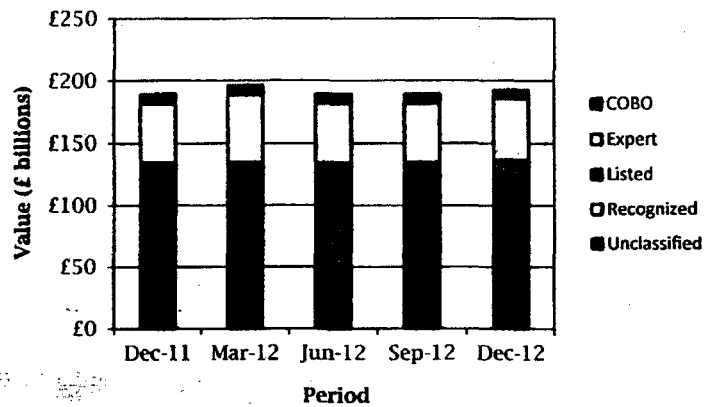
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Analysis by Funds classification

Figure 5 - Analysis of Funds by Classification as at 31st December 2012

Funds - NAV by classification

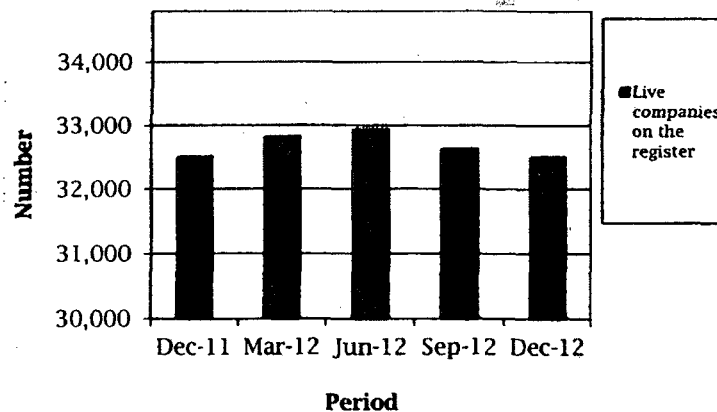


3. Company Administration

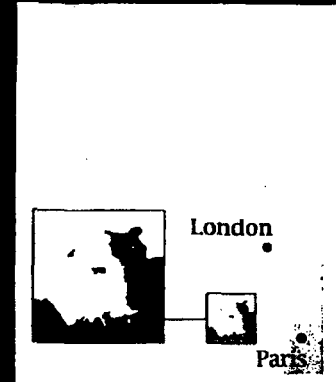
Company Incorporations - Jersey Companies

Figure 6 - Live Companies on the register as at 31st December 2012

Live companies on the register



The figures only refer to Jersey companies and do not include foreign companies formed and/or administered from Jersey.



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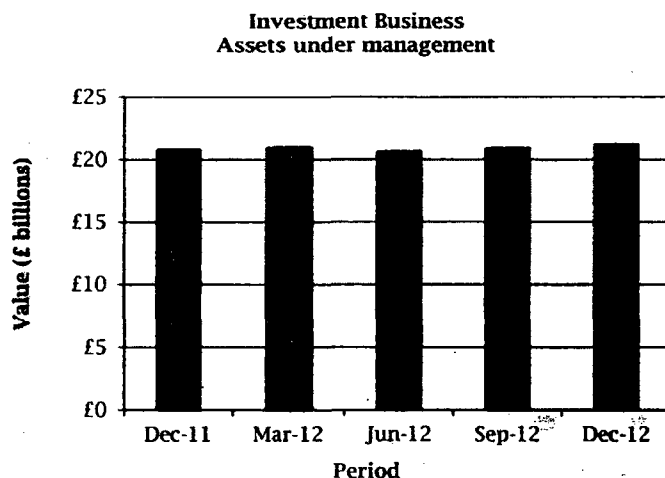


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4. Investment Business

Fig 7 - Investment Business Assets under Management as at 31st December 2012



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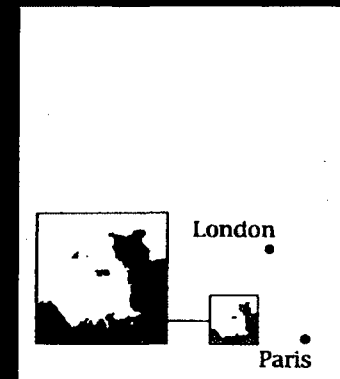
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Appendices - Detailed statistical information for quarter ended 31st December 2012

Appendix 1 - Banking Statistics

Banks and Bank Deposits to date. £ Billions (Source: Jersey Financial Services Commission)

DATE	NO OF BANKS	STERLING	CURRENCY	TOTAL
31 st Dec 2007	48	69.401	142.918	212.320
31 st Mar 2008	47	68.838	141.090	209.928
30 th Jun 2008	47	68.794	128.072	196.866
30 th Sep 2008	47	69.392	127.584	196.975
31 st Dec 2008	47	65.050	141.030	206.080
31 st Mar 2009	46	63.025	132.885	195.910
30 th Jun 2009	45	59.520	114.692	174.212
30 th Sep 2009	47	57.379	113.219	170.599
31 st Dec 2009	47	57.471	107.749	165.220
31 st Mar 2010	46	58.955	118.648	177.603
30 th Jun 2010	46	57.474	109.411	166.885
30 th Sep 2010	45	57.089	110.066	167.155
31 st Dec 2010	45	56.376	105.217	161.593
31 st Mar 2011	39	55.979	110.511	166.490
30 th Jun 2011	39	54.468	110.551	165.019
30 th Sep 2011	39	55.909	111.386	167.295
31 st Dec 2011	40	54.276	103.811	158.087
31 st Mar 2012	40	54.860	100.031	154.891
30 th Jun 2012	41	56.397	94.014	150.411
30 th Sep 2012	42	56.109	92.573	148.682
31 st Dec 2012	42	56.126	96.018	152.145

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Analysis of deposits - as at 31st December 2012 £ thousands (Source: Jersey Financial Services Commission)

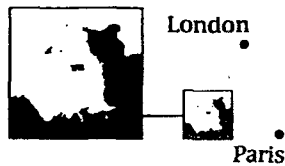
ANALYSIS OF DEPOSITS - December 2012

RESIDENCE OF DEPOSITORS	Sterling	Currency	Total
Jersey Resident Depositors	8,131,632	4,025,171	12,156,803
Jersey Financial Intermediaries etc.	6,392,648	6,808,619	13,201,267
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc.	24,988,322	14,067,684	39,056,006
SUBTOTAL	39,512,602	24,901,474	64,414,076
Other EU Members	2,582,907	12,274,666	14,857,573
European Non EU Members	3,696,945	26,778,402	30,475,347
Middle East	1,721,989	17,821,292	19,543,281
Far East	2,129,516	3,446,753	5,576,269
North America	1,813,494	4,082,924	5,896,418
Others, Unallocated non Jersey, UK etc.	4,668,961	6,712,836	11,381,797
SUBTOTAL	16,613,812	71,116,873	87,730,685

OVERALL TOTAL OF DEPOSITS	56,126,414	96,018,347	152,144,761
----------------------------------	-------------------	-------------------	--------------------

PERCENTAGE OF TOTAL	Sterling	Currency	Total
Jersey Resident Depositors	5.3%	2.6%	8.0%
Jersey Financial Intermediaries etc.	4.2%	4.5%	8.7%
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc.	16.4%	9.2%	25.7%
SUBTOTAL	26.0%	16.4%	42.3%
Other EU Members	1.7%	8.1%	9.8%
European Non EU Members	2.4%	17.6%	20.0%
Middle East	1.1%	11.7%	12.8%
Far East	1.4%	2.3%	3.7%
North America	1.2%	2.7%	3.9%
Others, Unallocated non Jersey, UK etc.	3.1%	4.4%	7.5%
SUBTOTAL	10.9%	46.7%	57.7%

OVERALL TOTAL OF DEPOSITS	36.9%	63.1%	100.0%
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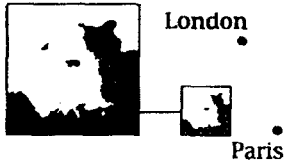
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Appendix 2 - Funds Statistics

Collective Investment Funds (Jersey) Law 1988 ("CIF Law")
Control of Borrowing (Jersey) Order 1958 ("COBO")

Summary of Statistical Survey of Funds Serviced in Jersey as at 31st
December 2012 (Source: Jersey Financial Services Commission)



Location of Jersey,
Channel Islands.

Date	Total Value £ Millions	Number of Funds	Total No. of Separate Pools
31 st Dec 2010	184,703	1,324	2,522
31 st Mar 2011	194,576	1,364	2,530
30 th Jun 2011	196,635	1,323	2,451
30 th Sep 2011	193,723	1,365	2,457
31 st Dec 2011	189,424	1,392	2,454
31 st Mar 2012	196,185	1,412	2,469
30 th Jun 2012	189,375	1,380	2,410
30 th Sep 2012	189,537	1,392	2,362
31 st Dec 2012	192,761	1,388	2,322

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ANALYSIS OF CIFS AND COBO FUNDS

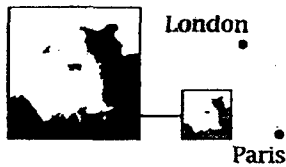
	Total NAV £ Millions	Total No of Funds	No of separate pools
CIFs Closed	112,578	508	562
CIFs Open	72,523	695	1,575
CIF Sub Total	185,101	1,203	2,137
COBO Closed	7,166	163	163
COBO Open	494	22	22
COBO Sub Total	7,660	185	185
Quarter Total	192,761	1,388	2,322



JERSEY FINANCE

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Appendix 2 - Funds Statistics (continued) CIFs AND COBOs BY POLICY
CODE For information in relation to Sales and Repurchases please contact
 Jersey Finance



Location of Jersey,
Channel Islands.

Investment Policy	Number of Single Class Funds	Number of Umbrella Sub- funds	NAV £ Millions as at 30/09/12	NAV £ Millions as at 30/12/12
B01 - Bond - Global	8	23	2,133	2,250
B02 - Bond - UK Debt	3	15	1,310	1,277
B03 - Bond - US Debt	1	6	687	674
B04 - Bond - Europe	0	8	408	388
B05 - Bond - Other	3	14	1,003	1,009
Sub Total Bond	15	66	5,541	5,598
E01 - Equity - UK	11	13	976	1,024
E02 - Equity - Europe (incl UK)	26	7	20,878	21,268
E03 - Equity - Europe (excl UK)	15	2	1,642	1,744
E04 - Equity - US (North America)	7	8	1,604	1,496
E05 - Equity - Japan	0	0	34	0
E06 - Equity - Far East (incl Japan)	5	2	752	778
E07 - Equity - Far East (excl Japan)	2	5	57	57
E08 - Equity - Global Emerging Markets	10	12	1,303	1,419
E09 - Equity - Global Equity	22	106	8,259	8,270
E10 - Equity - Other	55	51	6,313	6,287
Sub Total Equity	153	206	41,818	42,343

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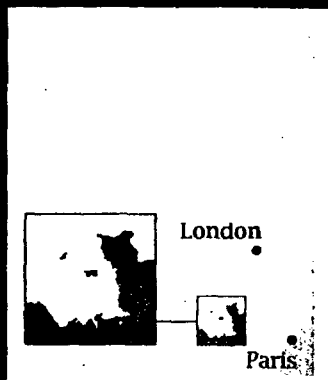
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Investment Policy	Number of Single Class Funds	Number of Umbrella Sub-funds	NAV £ Millions as at 30/09/12	NAV £ Millions as at 30/12/12
X01 - Mixed Equity Bond	33	193	9,297	9,732
Sub Total Mixed	33	193	9,297	9,732
M01 - Money Market - Sterling	1	8	139	134
M02 - Money Market - US Dollar	0	11	131	112
M03 - Money Market - Euro	0	8	91	59
M04 - Money Market - Swiss	0	1	20	20
M05 - Money Market - Other	2	5	35	31
Sub Total Money Market	3	33	416	356
S01 - Specialist - Venture Capital / Private Equity - Emerging Markets	47	0	6,257	6,696
S02 - Specialist - Venture Capital / Private Equity - Other	272	2	34,681	35,430
S03 - Specialist - Real Property	160	38	21,833	21,642
S04 - Specialist - Derivatives	6	7	77	69
S05 - Specialist - Traded Endowment Policies	9	25	1,262	1,187
S06 - Specialist - Hedge / Alternative Investment Funds	401	376	42,260	47,136
S07 - Specialist - Other	89	188	22,095	22,572
Sub Total Specialist	984	636	132,465	134,732
Grand Total	1,188	1,134	189,537	192,761



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Collective Investment Funds (Jersey) Law 1988 ("CIF Law") Control of Borrowing (Jersey) Order 1958 ("COBO")

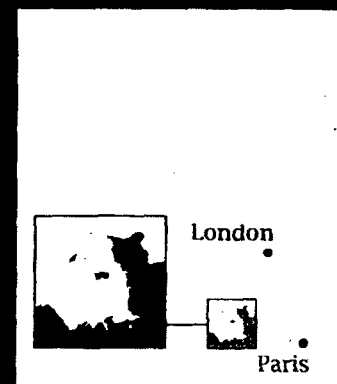
Summary of Statistical Survey of Funds Serviced in Jersey as at 31st
December 2012

Analysis by Class

Fund Type	Number of Funds	Number of Separate Pools	NAV £ Millions
Unclassified CIFs	728	1,431	131,673
Recognized CIFs	10	35	1,902
Listed CIFs	24	25	3,007
Expert CIFs	441	646	48,519
CIFs Sub Total	1,230	2,137	185,101
COBO Funds	185	185	7,660
CIFs & COBO Funds Total	1,388	2,322	192,761

Jersey/Non-Jersey

	Nav £(m)	Total No. of Funds	No. of Separate Pools
Jersey CIFs	93,436	775	1,600
Jersey COBOs	5,663	142	142
Jersey Sub Total	99,099	917	1,742
Non Jersey CIFs with a Major Function	91,665	428	537
Non Jersey COBOs with a Major Function	1,997	43	43
Non Jersey Sub Total	93,662	471	580
TOTAL	192,761	1,388	2,322



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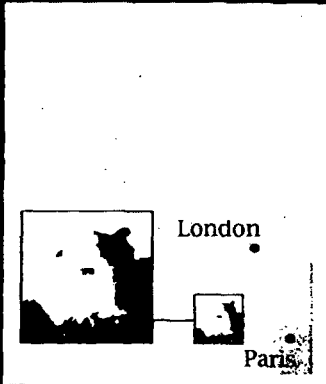
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QUARTERLY COMPANY INCORPORATIONS

	31 st March	30 th June	30 th September	31 st December
2006	921	875	774	909
2007	830	1,549	873	798
2008	761	799	661	537
2009	577	533	628	591
2010	709	586	605	584
2011	629	576	640	675
2012	646	558	526	643

LIVE COMPANIES ON THE REGISTER

	31 st March	30 th June	30 th September	31 st December
2006	31,664	32,234	31,996	32,155
2007	32,617	33,587	33,624	33,683
2008	33,784	34,372	34,622	33,395
2009	33,579	33,811	33,187	33,074
2010	33,379	33,570	33,634	32,722
2011	32,998	33,116	33,194	32,508
2012	32,816	32,938	32,628	32,503

Appendix 4 - Insurance Business

License	Q3 2012	Net movement	Q4 2012
Category A	171	-2	169
Category B	9	0	9
Total	180	-2	178

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2011

	Note	2011 £	2010 £
Income	2		
Fees receivable	1(b)	12,596,240	11,362,101
Interest on deposits with States Treasury and banks	1(c)	122,162	106,676
		<u>12,718,402</u>	<u>11,468,777</u>
Expenses			
Salaries, pension costs, staff recruitment and training		7,917,626	7,671,235
GTA University Centre net gain on pension transfer	7(l)	(540,568)	—
Commissioners' fees		132,250	118,000
Legal and professional fees		971,282	310,143
Premises and equipment, including depreciation	1(e), 1(f), 4, 10	1,411,098	1,058,709
Other operating expenses		689,077	737,928
Other finance costs	1(g), 7(b)	42,756	205,818
Auditor's remuneration		11,236	10,720
		<u>10,634,757</u>	<u>10,112,553</u>
Commission's contribution to expenses of GTA University Centre	9	440,000	440,000
		<u>11,074,757</u>	<u>10,552,553</u>
Surplus for the year		<u>£1,643,645</u>	<u>£916,224</u>

There is no difference between the surplus for the financial year as stated above and its historical cost equivalent.

The notes on pages 44 to 51 form an integral part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2011

	Note	2011 £	2010 £
Surplus for the year		1,643,645	916,224
Actuarial (loss)/gain	7(e), (k)	(3,436,142)	228,181
Total recognised (loss) / gain for the year		£(1,792,497)	£1,144,405

The notes on pages 44 to 51 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	2011 £	2010 £
Fixed assets			
Tangible assets	4	2,522,976	2,631,530
Current assets			
Debtors	5	499,928	410,473
Deposits with States Treasury	14	20,761	20,565
Cash at bank and in hand	14	7,591,669	5,190,073
		8,112,358	5,621,111
Creditors – amounts falling due within one year	6a	(2,368,753)	(1,265,479)
Net current assets:		5,743,605	4,355,632
Creditors – amounts falling due after one year	6b	(39,000)	–
Net assets before post-retirement liability		8,227,581	6,987,162
Post-retirement liability	7(a), (k)	(7577,179)	(4,544,263)
Net assets		£650,402	£2,442,899
Reserves	8	£650,402	£2,442,899

The financial statements on pages 39 to 51 were approved by the Commissioners and signed on their behalf on 27 April 2012 by:

Cees Schrauwers
Chairman

Susie Farnon
Vice-Chairman

JN van Leuven
Director General

The notes on pages 44 to 51 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 £	2010 £
Reconciliation of surplus of income less expenditure for the year to net cash inflow from operating activities			
Surplus of income less expenditure		1,643,645	916,224
Other finance costs	7(b)	42,756	205,818
Current pension service cost	7(c)	838,586	832,738
Loss on curtailment	7(c)	25,641	—
Gain on settlements	7(c)	(586,209)	—
Contributions made to pension schemes	7(d)	(724,000)	(759,356)
Depreciation on tangible fixed assets	4	412,872	341,345
Interest receivable		(122,162)	(106,676)
Increase in debtors		(89,455)	(16,189)
Increase in creditors		1,142,274	418,333
Net cash inflow from operating activities		£2,583,948	£1,832,237
Return on investments and capital expenditure			
Returns on investments and servicing of finance – interest		122,162	106,676
Capital expenditure	4	(304,318)	(1,612,428)
Increase in cash in the year		£2,401,792	£326,485
Reconciliation of net cash flow to movements in net cash			
Increase in cash in the year	14	2,401,792	326,485
Net cash at 1 January	14	5,210,638	4,884,153
Net cash at 31 December	14	£7,612,430	£5,210,638

The notes on pages 44 to 51 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

I. Accounting policies

(a) Convention

These financial statements have been prepared in accordance with the historical cost convention and under applicable accounting standards in the UK. The principal accounting policies which the Commissioners have adopted within that convention are set out below. They have been applied consistently in dealing with items which are considered material to the financial statements of the Commission.

(b) Fees receivable

Fees receivable are accounted for on an accruals basis.

(c) Interest

Bank and States Treasury deposit interest is accounted for on an accruals basis.

(d) Investigation and litigation

Costs arising from investigation and litigation are accounted for as expenditure is incurred, whether or not it had been billed at the balance sheet date. Such costs recovered from third parties are accounted for in the year in which they are received. No provision is made for expenditure or recoveries which may arise in future years.

(e) Tangible fixed assets and depreciation

Depreciation on tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of their estimated useful economic lives at the following annual rates:

Leasehold improvements	over the shorter of the term of the lease and the estimated useful economic life of the assets
Office equipment and fittings	25% straight-line
Furniture	10% straight-line
Computer equipment:	
Hardware	33% straight-line
Software	over the shorter of 10 years and the estimated useful economic life of the assets

(f) Leases

Rental payments made in relation to office accommodation are treated as operating leases and are charged to the income and expenditure account on a straight-line basis over the lease term.

(g) Pensions

Employees of the Commission who generally joined before 1 January 2008 are eligible to be members of the States of Guernsey Superannuation Fund ("the Fund") which is a defined benefit pension scheme funded by contributions from both the member and the employer.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members ("the scheme") was established with effect from 1 January 2004. Regular valuations are prepared by independent professionally qualified actuaries.

In accordance with Financial Reporting Standard 17 - Retirement Benefits ("FRS 17"), the regular service costs of providing retirement benefits to employees during the year, together with any past service costs, are charged to the income and expenditure account in the year.

A debit is included within other finance costs, representing the interest cost on the scheme's liabilities, less the expected return on the scheme's assets, for the year. A credit is included within other finance income where the expected return on the scheme's assets exceeds the interest cost.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet.

Differences between the actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year together with differences arising from changes in assumptions and experience gains and losses arising on the scheme liabilities.

Employees of the Commission joining since 1 January 2008 are generally eligible to be members of the Island Trust Pension Plan ("the DC Plan") which is a defined contribution pension scheme funded by contributions from both the member and the employer. Employer contributions are charged to the income and expenditure account in the year in which they become payable to the DC Plan.

2. Income

Income is derived wholly from continuing activities.

3. Taxation

The Commission is exempt from the provisions of the Income Tax (Guernsey) Law, 1975 as amended.

4. Tangible assets

	Leasehold improvements £	Office equipment, furniture and fittings £	Computer hardware £	Computer software £	Total £
Cost					
At 1 January 2011	1,256,577	372,298	446,798	1,400,709	3,476,382
Additions	22,804	46,074	60,561	174,879	304,318
Disposals	(6,858)	(13,770)	(8,423)	—	(29,051)
At 31 December 2011	1,272,523	404,602	498,936	1,575,588	3,751,649
Depreciation					
At 1 January 2011	20,336	89,306	312,564	422,646	844,852
Charge for the year	57,396	50,368	107,636	197,472	412,872
On disposals	(6,858)	(13,770)	(8,423)	—	(29,051)
At 31 December 2011	70,874	125,904	411,777	620,118	1,228,673
Net book value at 31 December 2010	£1,236,241	£282,992	£134,234	£978,063	£2,631,530
Net book value at 31 December 2011	£1,201,649	£278,698	£87,159	£955,470	£2,522,976

5. Debtors

	2011 £	2010 £
Amount due from GTA University Centre	80,702	25,006
Other debtors	49,985	53,000
Prepayments	369,241	332,467
	£499,928	£410,473

NOTES TO THE FINANCIAL STATEMENTS (continued)

6a. Creditors – amounts falling due within one year

	2011	2010
	£	£
Expense creditors and accruals	1,220,176	341,779
Fees received in advance	1,148,577	923,700
	<u>£2,368,753</u>	<u>£1,265,479</u>

6b. Creditors – amounts falling due after one year

	2011	2010
	£	£
Expense accruals	39,000	-
	<u>£39,000</u>	<u>-</u>

7. Superannuation

(i) FRS17 Disclosure for the Guernsey Financial Services Commission Actuarial Account of the States of Guernsey Superannuation Fund

Employee benefit obligations

This is a defined benefit pension scheme funded by contributions from both the member and the employer which provides retirement benefits based on final pensionable salary. The employer contributions are determined on the basis of independent actuarial advice and are calculated to meet the cost of benefit accrual over the next year of pensionable service.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members was established with effect from 1 January 2004 within the Fund following an instruction from the former States Advisory and Finance Committee. The Actuarial Account is used solely for the purpose of determining the contributions payable to the Fund by the Commission and to avoid the possibility of inappropriate subsidisation of one employer by another.

A full actuarial valuation of the scheme was carried out at 31 December 2010 by the scheme's actuary, which resulted in a funding surplus of £1,145,000. An interim actuarial valuation at 31 December 2011 resulted in a funding deficit of £529,000. The scheme's actuary has also completed valuations annually as at 31 December, since 2005, for the purposes of FRS17.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

(a) The amounts recognised in the balance sheet are as follows:

	2011	2010
	£	£
Fair value of scheme assets	13,455,961	14,811,865
Present value of funded obligations	(21,033,140)	(19,356,128)
Net pension liability	<u>£(7,577,179)</u>	<u>£(4,544,263)</u>

The asset and liability values on the FRS17 basis reflect market conditions at the Commission's year-end date and, as point-in-time calculations, can be expected to vary greatly from year to year, without prejudicing the scheme's long-term ability to provide the required benefits.

7. Superannuation (continued)

(b) The amounts recognised in the income and expenditure account are as follows:

	2011 £	2010 £
Interest on obligation	1,040,352	955,312
Expected return on scheme assets	(997,596)	(749,494)
Other finance costs	42,756	205,818
Current service cost	838,586	832,738
Loss on curtailment	25,641	—
Gain on settlement	(586,209)	—
Expense recognised in income and expenditure account	£320,774	£1,038,556
Actual return on scheme assets	£(584,759)	£1,542,554

(c) Changes in the present value of the defined benefit obligation are as follows:

	2011 £	2010 £
Opening defined benefit obligation	(19,356,128)	(16,837,302)
Current service cost	(838,586)	(832,738)
Interest on obligation	(1,040,352)	(955,312)
Contributions by members	(289,855)	(318,054)
Actuarial losses on obligations	(1,853,787)	(564,879)
Loss on curtailments	(25,641)	—
Gain on settlements	586,209	—
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values – general	109,961	152,157
– GTA University Centre	1,675,039	—
Closing defined benefit obligation	(21,033,140)	£(19,356,128)

(d) Changes in the fair value of scheme assets are as follows:

	2011 £	2010 £
Opening fair value of scheme assets	14,811,865	12,344,058
Expected return on scheme assets	997,596	749,494
Actuarial (losses)/gains on scheme assets	(1,582,355)	793,060
Contributions by employer	724,000	759,356
Contributions by members	289,855	318,054
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	(1,785,000)	(152,157)
Closing fair value of scheme assets	£13,455,961	£14,811,865

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Superannuation (continued)

(e) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

	2011	2010
	£	£
Opening amount of losses recognised in STRGL	(4,276,166)	(4,504,347)
Actuarial losses on obligations for the year	(1,853,787)	(564,879)
Actuarial (losses)/gains on scheme assets for the year	(1,582,355)	793,060
Total actuarial (losses)/gains for the year	(3,436,142)	228,181
Cumulative amount of losses recognised in STRGL	(£7,712,308)	£(4,276,166)

- (f) The employer expects to contribute £581,025 to the scheme in the year ended 31 December 2012. Following the actuarial valuation of the scheme as at 31 December 2010, the actuary calculated that the Commission's contribution rate payable to the scheme, to reflect the future service cost, be decreased to 15.6% from 17.8% (the rate recommended by the actuary after the previous actuarial valuation on 31 December 2007). The contribution rate was decreased to 15.6% with effect from 1 January 2012. However, the current service cost, calculated in accordance with FRS17 and representing the cost to the Commission of the benefits accrued to active members of the scheme during the financial year ended 31 December 2011, has been reflected in the Commission's income and expenditure account.

(g) The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2011	2010
	%	%
Equities	64	69
Gilts	5	4
Corporate bonds	13	15
Property	10	4
Other assets	8	8

This allocation is at the discretion of the States.

(h) Long-term principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	2011	2010
	%	%
Discount rate as at 31 December	4.7	5.4
Expected return on Fund assets at 31 December	5.7	6.6
Rate of increase in pensionable salaries	4.1	5.1
Rate of increase in deferred pensions	3.3	3.8
Rate of increase in pensions in payment	3.3	3.8

The FRS17 standard refers to a discount rate determined as the current rate of return on high quality corporate bonds (normally taken to be rated as AA) of equivalent currency and term to the Actuarial Account's liabilities.

7. Superannuation (continued)**(i) Mortality assumptions**

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that members aged 60 will live on average until age 89 if they are male and until 90 if female. For members currently aged 45, the assumptions are that if they attain age 60 they will live on average until age 90 if they are male and until 92 if female.

(j) Description of the basis used to determine return on Fund assets

The States adopts a building block approach in determining the expected rate of return on the fund's assets. The States retains full responsibility for the management of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

(k) Amounts for the current and previous periods are as follows:

	2011 £	2010 £	2009 £	2008 £	2007 £
Defined benefit obligation	21,033,140	19,356,128	16,837,302	11,987,385	11,267,735
Fair value of scheme assets	13,455,961	14,811,865	12,344,058	8,424,935	9,701,884
Deficit in the scheme	(7,577,179)	(4,544,263)	(4,493,244)	(3,562,450)	(1,565,851)
Actuarial (losses) / gains on scheme assets	(1,582,355)	793,060	940,303	(2,660,642)	(113,976)
Actuarial (losses) / gains on defined benefit obligation	(1,853,787)	(564,879)	(2,793,117)	1,086,777	45,858
Actuarial (losses) / gains recognised in STRGL	(£3,436,142)	£228,181	£(1,852,814)	£(1,573,865)	£(68,118)

The States has confirmed that in the final resort the claims of the Commission's pensioners and employees would be met from the whole Fund and any shortfall in the scheme would then be met by the States from General Revenue.

- (l) As a result of the transfer of certain staff, and their pension liabilities, on 31 December 2011, to the employment of the GTA University Centre, a net gain of £540,568 was credited to the income and expenditure account. This includes a payment to the States of Guernsey Superannuation Fund to facilitate a transfer of GTA University Centre pension obligations, on a fully funded basis, partially offset by a contribution by the GTA University Centre. The composition is as follows.

	2011 £	2010 £
Gain on settlement	(586,209)	-
Loss on curtailment	25,641	-
Payment to the States of Guernsey	50,000	-
Contribution by the GTA University Centre	(30,000)	-
GTA University Centre net gain on pension transfer	£(540,568)	-

(ii) FRS17 Disclosure for the Island Trust Pension Plan (the DC Plan)

The net cost of employer contributions to the DC Plan for the year ended 31 December 2011 was £195,338 (2010: £143,370). Contributions of £12,785 were outstanding as at 31 December 2011 (2010: £4,034). No contributions were prepaid as at 31 December 2011 or 2010. Employer contributions are calculated at 12% of pensionable salary and mandatory employee contributions are at a rate of 5% of pensionable salary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Reconciliation of movements in reserves

	2011 £	2010 £
Reserves brought forward	2,442,899	1,298,494
Surplus of income less expenditure for the year	1,643,645	916,274
Actuarial (loss) / gain on post-retirement liability 7(e)	(3,436,142)	228,181
Reserves carried forward	£650,402	£2,442,899

Reserves are stated after deducting the accumulated pension liability of £7,577,179 (2010: £4,544,263) which equates to the post-retirement liability under FRS17 (see note 7).

9. GTA University Centre

The GTA University Centre (GTA) arranges training for the finance industry and for other industry sectors. The company's staff, excluding those joining since 2007, were employed by the Commission and permanently seconded to the company, up to 31 December 2011. The Commission provided a grant of £440,000 in 2011 (2010: £440,000) to the company in order to meet approximately 50% of its budgeted net operating expenditure, with £470,000 being provided by the States via the Commerce and Employment Department. 2012 will be the final year of the grant.

10. Lease commitments

The Commission leased office accommodation at Glategny Court and Le Marchant House during the year. Cessation of the underlease for Le Marchant House occurred on 10 December 2011. The lease for Glategny Court expires on 16 September 2034 and the rental payable in 2011 under the terms of the leases amount to £679,820 (2010: £414,218).

Commitments to make payments during the next year in respect of an operating lease are as follows:

Land and buildings

	2011 £	2010 £
Leases which expire up to 1 year after balance sheet date	—	£39,310
Leases which expire between 1 and 5 years after balance sheet date	—	—
Leases which expire more than 5 years after balance sheet date	£646,338	£631,078

11. Investigation and litigation costs

As a consequence of fulfilling its regulatory responsibilities, from time to time the Commission undertakes investigations and is a party to legal actions, the costs of which may be significant. No provision has been made in the financial statements for any future costs in respect of current investigations or legal actions because the nature, complexity and duration of such actions remain uncertain.

In a few cases, some or all of the Commission's investigation and legal costs may be recoverable, although not necessarily in the same financial year as the expenditure is incurred. In such cases the recovery is recognised when received.

12. Related-party transactions

The States appointed Peter Harwood as a Commissioner in August 2004. He was a partner of Ozannes, now Maurant Ozannes, until 31 December 2009. During the year the Commission engaged Maurant Ozannes to provide certain legal and professional services. These were contracted on an arm's-length basis and are not considered to be significant in the context of the business of the parties.

13. Controlling party

In the opinion of the Commissioners there is no controlling party of the Commission, as defined by Financial Reporting Standard No. 8 – Related Party Disclosures, as no party has the ability to direct the financial and operating policies of the Commission with a view to gaining economic benefits from their direction

14. Analysis of net cash

	At 1 January 2011 £	Cash flow £	At 31 December 2011 £
Deposits with States Treasury	20,565	196	20,761
Cash at bank and in hand	5,190,073	2,401,596	7,591,669
	<u>£5,210,638</u>	<u>£2,401,792</u>	<u>£7,612,430</u>

Banking Division

Table 1. Licences and deposits at the year end

End	Banks licensed	Deposits £mns	Annual % change in deposits
1990	72	15,476	19.1
1991	72	16,250	5.0
1992	76	27,442	68.9
1993	75	37,482	36.6
1994	73	42,191	12.6
1995	73	46,855	11.1
1996	72	43,324	-7.5
1997	78	49,357	13.9
1998	78	52,922	7.2
1999	79	57,059	7.8
2000	77	68,474	20.0
2001	72	77,211	12.8
2002	67	71,943	-6.8
2003	61	69,703	-3.1
2004	54	70,426	1.0
2005	50	80,728	14.6
2006	50	92,349	14.4
2007	47	119,170	29.0
2008	48	157,009	31.8
2009	44	117,415	-25.2
2010	38	111,030	-5.4
2011	35	107,545	-3.1

Table 2. Assets and liabilities of licensed banks at the year end

	2005 Total £mns	2006 Total £mns	2007 Total £mns	2008 Total £mns	2009 Total £mns	2010 Total £mns	2011 Total £mns
Liabilities							
Tier 1 capital*	1,385	1,491	1,570	1,981	2,093	2,288	2,182
Tier 2 capital**	29	51	52	49	166	52	28
Deposits by							
British Isles banks and financial corporations	11,845	16,681	20,306	20,866	23,130	25,087	23,336
Other banks	35,265	42,757	59,582	87,490	53,827	44,966	45,199
British Isles public sector	36	48	43	49	39	30	29
Companies, persons, other	32,191	31,977	38,138	45,898	37,706	38,250	36,102
Other liabilities	6,731	7,579	12,209	22,785	18,851	23,455	26,710
Total liabilities	87,482	100,584	131,900	179,117	135,812	134,128	133,586
Assets							
Loans, advances and market loans with							
Banks and financial institutions	59,731	71,177	86,738	111,222	78,925	79,424	79,530
British Isles public sector	10	10	10	13	28	25	29
Companies, persons, other	6,067	5,931	17,647	27,111	23,673	25,656	27,278
Government securities	6,965	5,127	3,694	3,179	2,092	2,964	1,858
Company shares/securities	10,337	7,085	9,894	8,580	8,913	10,709	11,645
CDs*** and all other assets	4,372	11,254	13,917	29,012	22,181	15,350	13,245
Total assets	87,482	100,584	131,900	179,117	135,812	134,128	133,586

*Paid-up share capital and disclosed reserves

**Undisclosed reserves, revaluation reserves, general provisions, debt/equity instruments and subordinated debts

***CDs plus FRNs and commercial paper

Figure 1. Asset at the year end

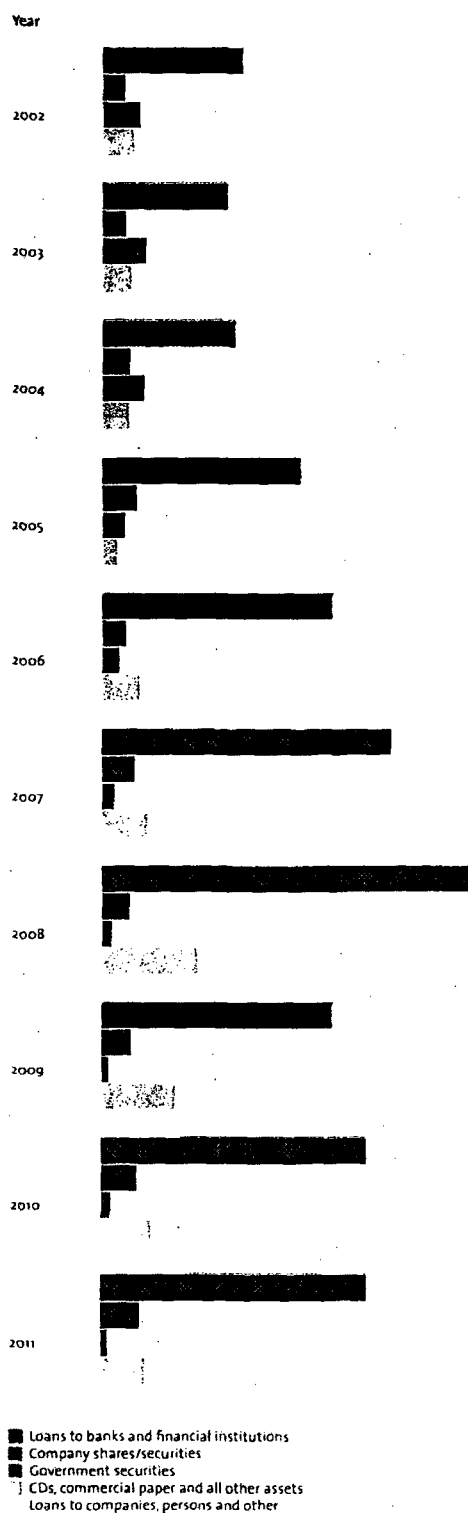


Figure 2. Analysis of deposits with Guernsey banks by currency at end December 2011

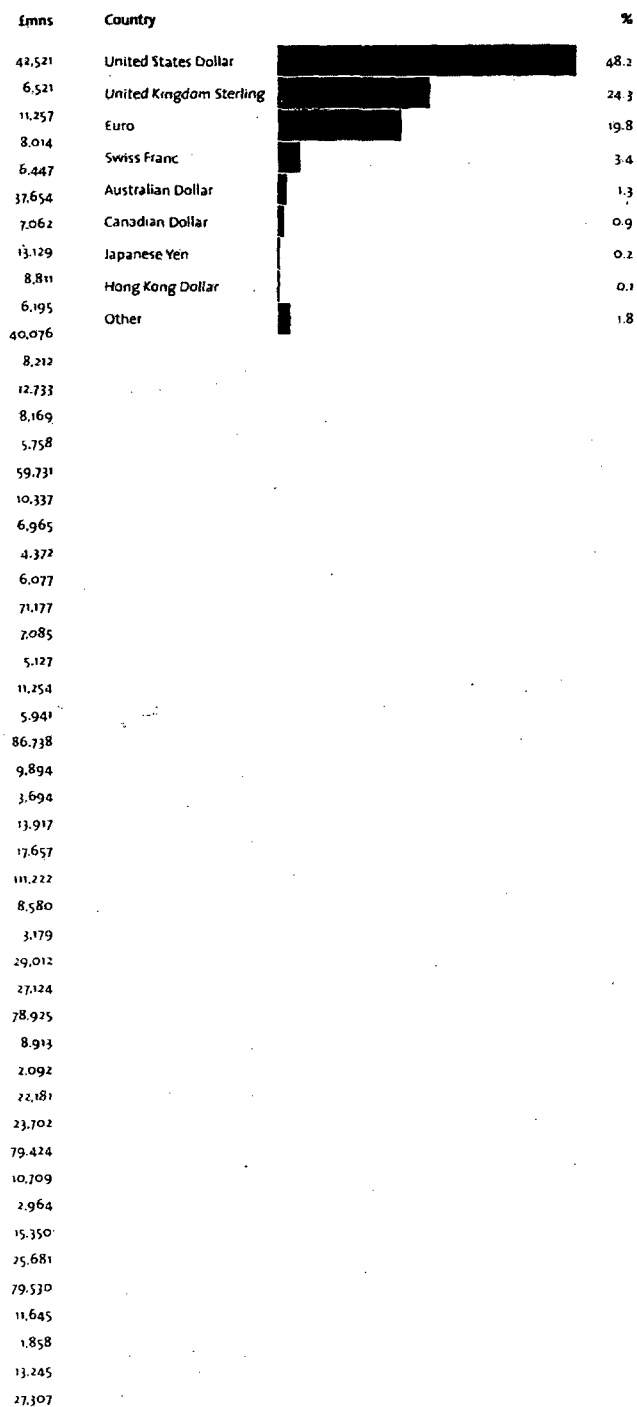


Figure 3. Selected loans and advances since 2008

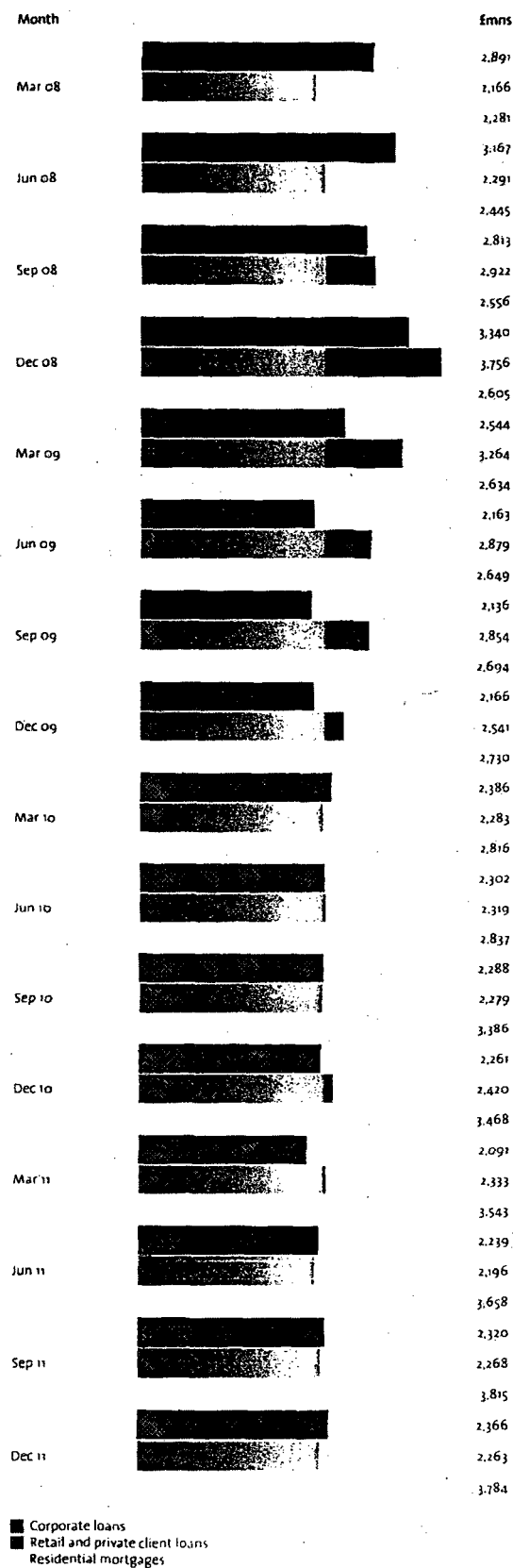


Figure 4. Disposition of bank assets at December 2011

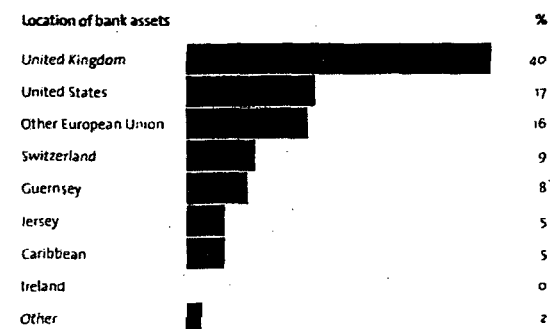


Figure 5. Source of bank deposits at December 2011

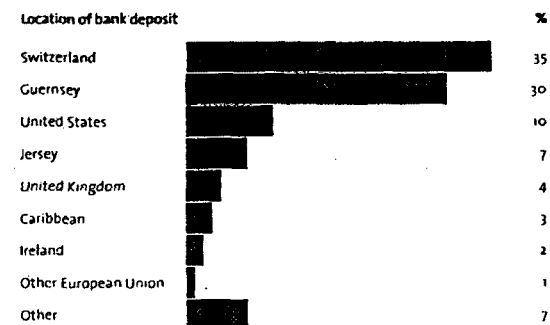


Figure 6. Total Tier 1 capital at the year end

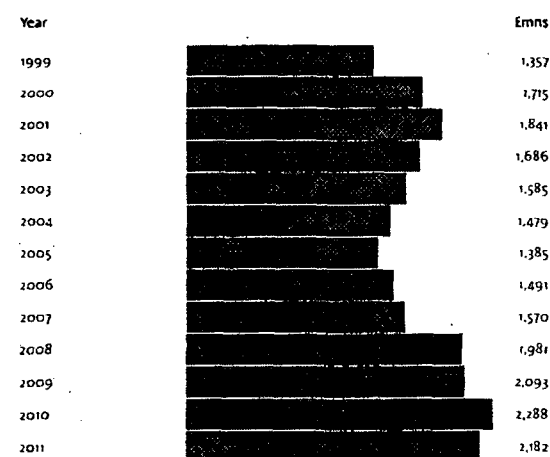


Figure 7. Country of origin of Guernsey-licensed banks – subsidiaries at end 2011

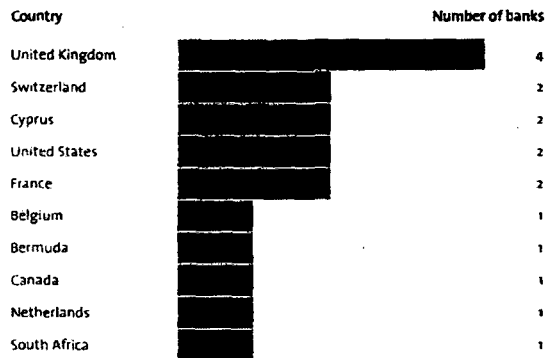
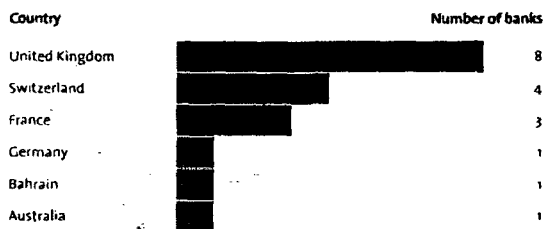


Figure 8. Country of origin of Guernsey-licensed banks – branches at end 2011



Insurance Division

Figure 9. December 2011: Last 12 months, number of licences issued by type of licence

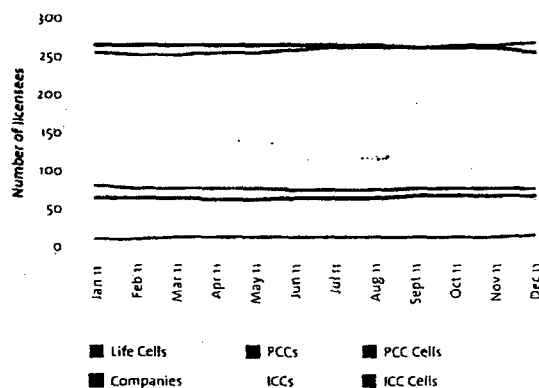


Figure 11. December 2011: 12-month rolling summary of licences surrendered

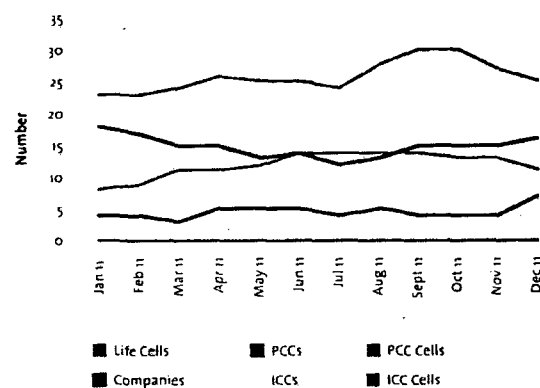


Figure 10. December 2011: 12-month rolling summary of licences issued

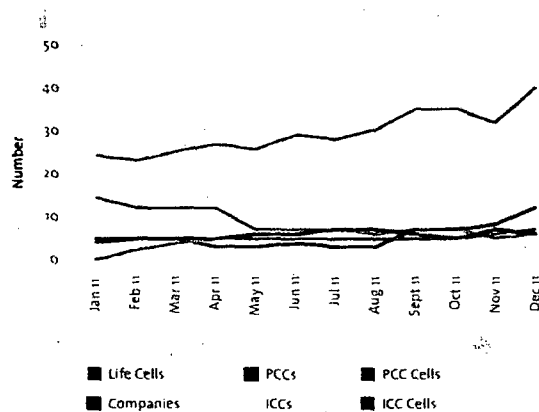


Figure 12. Gross assets

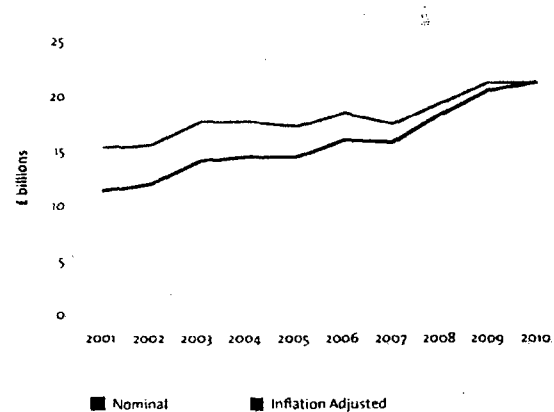


Figure 13. Net worth

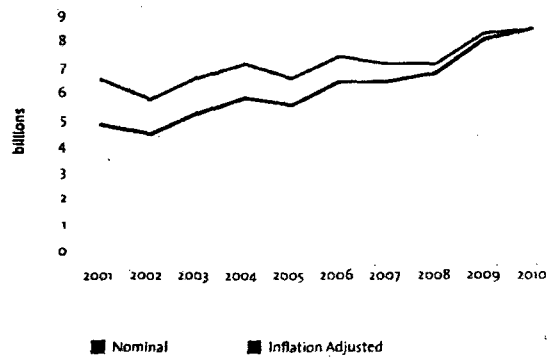


Figure 15. 2011 new licences by parent location

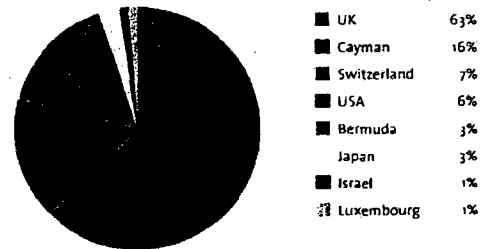


Figure 14. Premium

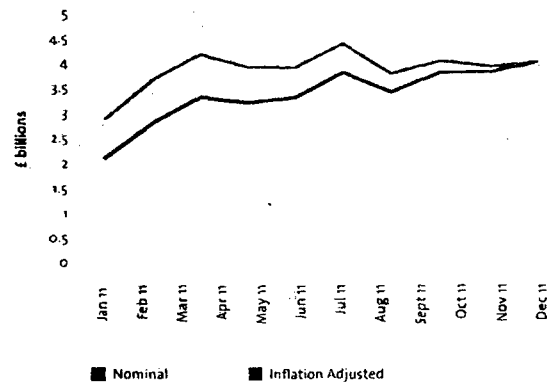


Table 3. New collective investment funds during the year

	2010	2011
Open-ended funds – authorised/registered	27	19
Open-ended funds – new classes approved	131	125
Closed-ended funds – authorised/registered	62	75

Figure 17. Open-ended funds – analysis by investment style

Investment Style	
Equity / Securities	95
Fund of Hedge Fund	64
Debt	34
Other	32
Real Property	28
Derivatives	24
Hedge Fund	24
Money Market / Cash	21
Emerging Markets	15
Balanced	9
Managed Currency	9
Private Equity	4
Venture Capital	1

Table 4. Open-ended funds at the year end

	2010	2011	% change
Number of funds	262	244	-6.8
Number of investment pools	1722	1545	-10.2
Value of assets (£bns)	57.95	55.35	-4.5
Net new investment over year (£mns)	5,157	5,193	0.6
Number of registered holders ('000s)	60,516	53,313	-11.9
Stock exchange-listed	157	144	-8.2

Guernsey-authorised open-ended funds are funds in which shares/units are offered for sale throughout their life and which investors are entitled to redeem on demand subject to any applicable notice period.

Figure 18. Nationality of sponsors/joint sponsors of Guernsey open-ended funds at year end 2011

Country	
Guernsey	83
United Kingdom	77
Switzerland	38
South Africa	8
United States	7
British Virgin Islands	6
France	6
Australia	4
Cayman Islands	4
Luxembourg	4
New Zealand	4
Canada	3
Bahamas	3
Kuwait	2
Austria	1
Belgium	1
Hong Kong	1
Japan	1
Jersey	1
The State of Abu Dhabi	1
Turkey	1

Note: some funds may have more than one sponsor

Figure 16. Open-ended funds – geographic breakdown of investments

Country	%
Guernsey	23
United Kingdom	21
Cayman Islands	14
USA	9
Other	8
Luxembourg	4
Ireland	3
Bermuda	2
Canada	2
Japan	2
Russia	2
Australia	1
British Virgin Islands	1
China	1
Denmark	1
France	1
Germany	1
Jersey	1
Netherlands	1
Switzerland	1
Turkey	1

Figure 19. Nationality of sponsors/joint sponsors of Guernsey closed-ended funds at year end 2011

Country	
United Kingdom	301
Guernsey	88
Switzerland	60
United States	43
Germany	18
Netherlands	14
Norway	12
France	11
Cayman Islands	10
Finland	9
South Africa	6
Sweden	5
China	4
Turkey	4
British Virgin Islands	3
Greece	3
Italy	3
Japan	3
Spain	3
Czech Republic	2
Estonia	2
Hungary	2
Israel	2
Luxembourg	2
Portugal	2
Republic of Ireland	2
Australia	1
Bahamas	1
Belgium	1
Canada	1
Curaçao	1
Cyprus	1
Dubai	1
Hong Kong	1
Iceland	1
Isle of Man	1
Jersey	1
Kuwait	1
Lebanon	1
Netherlands Antilles	1
Russia	1
Singapore	1
United Arab Emirates	1

Note: Some funds may have more than one sponsor

Table 5. Closed-ended funds at the year end

	2010	2011	% change
Number of funds	599	610	1.8
Value of assets (£bns)	109.5	119.11	8.8
Number of registered holders ('000s)	70.35	68.57	-2.5
Stock exchange-listed	229	217	-5.2

Guernsey-approved closed-ended funds normally have a fixed capital issued once and for all and investors have no absolute entitlement to redeem their shares/units.

Figure 20. Closed-ended funds – geographic breakdown of investments

Country	%
United Kingdom	21
USA	13
Guernsey	10
Cayman Islands	7
Germany	6
Luxembourg	6
Other	6
China	2
Cyprus	2
France	2
Netherlands	2
Russia	2
Sweden	2
Switzerland	2
Australia	1
Bermuda	1
Brazil	1
British Virgin Islands	1
Canada	1
Denmark	1
Egypt	1
Finland	1
Ireland	1
Italy	1
Japan	1
Jersey	1
Malta	1
Mauritius	1
Norway	1
Poland	1
Spain	1

Figure 21. Closed-ended funds – analysis by investment style

Investment	
Private Equity	302
Real Property	125
Equity / Securities	70
Other	49
Debt	45
Venture Capital	38
Infrastructure	22
Fund of Hedge Fund	17
Derivatives	16
Emerging Markets	11
Hedge Fund	8
Balanced	2
Money Market / Cash	2

Figure 22. Total funds authorised and registered at the year end

Year	Number of funds
2004	516
2005	584
2006	724
2007	851
2008	919
2009	884
2010	861
2011	854

Figure 23. Total Guernsey funds under management at the year end

Year	Number of funds
2004	56,567
2005	79,334
2006	105,139
2007	145,616
2008	155,046
2009	136,079
2010	167,453
2011	174,473

Table 6. Non-Guernsey schemes at year end

	2010	2011	% change
Number of funds	332	308	-7.2%
Value of assets (£mns)	90.00	87.08	-3.3%
Stock exchange-listed	41	35	-14.6%

These open-ended schemes incorporated/established in other jurisdictions are not Guernsey-authorized/registered. However, Guernsey institutions licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 provide management/administration or custody services to such schemes with specific approval from the Commission.

Figure 24. Number of institutions licensed under the Protection of Investors Law at year end

Year	Number of institutions
2004	446
2005	486
2006	554
2007	636
2008	680
2009	661
2010	652
2011	654

Enforcement Statistics

Introduction

The Commission introduced its Enforcement Policy, describing the manner in which it would approach the use of its enforcement powers and sanctions, in cases of regulatory non-compliance. In 2011, a number of regulatory matters were resolved through agreement with the subject concerned, while in a smaller number of cases the following regulatory sanctions were imposed, either with the agreement of the subject or decided upon by the Commission:

Warnings	6
Conditions imposed on licence, authorisation, registration or consent	9
Refusal to grant request to vary or remove a prohibition order	1
Requirement to provide information, documents or produce a report concerning identified regulatory areas of concern	5

Policy and International Affairs Division

Table 7. International Monetary Fund ("IMF") Coordinated Portfolio Investment Survey 2010

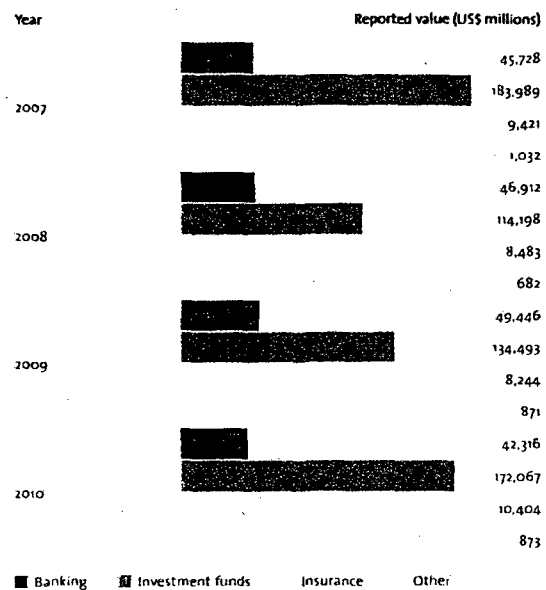
Cross-border securities* owned by institutions in the Bailiwick of Guernsey at end 2010 (US\$ millions)

Sector	Equities	Short-term debt	Long-term debt	Total	Year
Banks	644	19,870	21,802	42,316	2007
Domestic insurers	-	-	32	32	
Life insurers	4,973	5	1,920	6,898	
Insurance managers and captives	160	2,454	859	3,473	
Insurance intermediaries	-	-	-	0	2008
Open and closed-ended collective investment funds	126,132	5,002	40,933	172,067	
States of Guernsey	242	209	423	874	2009
Total	132,151	27,540	65,969	225,660	

*The IMF Coordinated Portfolio Investment Survey includes information on cross-border holdings of equities, short-term debt and long-term debt. It does not include other assets, such as cash, derivatives, Islamic investments or property

Figure 25. International Monetary Fund ("IMF") Coordinated Portfolio Investment Survey

Cross-border securities by business sector at the year end



Finance and Operations Division

Table 8. Income and expenses by sector

	Banking		Fiduciary		Insurance		Investment business		Non regulated financial services businesses and prescribed businesses		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Number of regulated & registered entities	35	38	183	187	756	746	1,816	1,845	153	144	2,943	2,960
Fee income	1,880	1,533	2,347	1,976	2,838	2,483	5,368	5,271	163	99	12,596	11,362
Direct costs	(1,286)	(1,403)	(1,431)	(1,248)	(1,857)	(1,806)	(2,693)	(2,610)	(140)	(60)	(7,407)	(7,127)
Interest income	18	13	22	17	28	24	54	53	0	0	122	107
Common costs	(480)	(496)	(575)	(513)	(766)	(731)	(1,322)	(1,206)	(84)	(40)	(3,227)	(2,986)
Surplus/(deficit)	132	(353)	363	232	243	(30)	1,407	1,508	(61)	(1)	2,084	1,356
Contribution to costs of GTA University Centre											(440)	(440)
Surplus, net of GTA contribution											1,644	916

Table 9. Salaries and related costs

	2011	2010
	£'000	£'000
Salaries	5,944	5,928
Consultants/ secondees	118	76
Pension costs	1,005	875
Social insurance, permanent health and medical insurance	567	548
Recruitment and training	283	244
Total	7,917	7,671

Table 11. Commissioners' fees (increase effective October 2011)

	2011	2010
	£'000	£'000
Chairman of Commissioners	35	22
Non-resident Commissioners	30	22
Resident Commissioners	25	15

Table 10. Number of staff by salary band

Annual salary	2011	2010
£0 - £39,999 p.a.	30	36
£40,000 - £79,999 p.a.	53	52
£80,000 - £119,999 p.a.	10	10
£120,000 p.a. and above	9	7
	102	105

Functions, structure and corporate governance and other control systems of the Commission

Functions of the Commission

The Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law) established the Commission with both general and statutory functions. The general functions include the taking of "such steps as the Commission considers necessary or expedient for the effective supervision of finance business in the Bailiwick". The statutory functions include those prescribed under or arising pursuant to the following regulatory laws:

- the Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended;
- the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended;
- the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 as amended;
- the Insurance Business (Bailiwick of Guernsey) Law, 2002 as amended;
- the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 as amended.

Relationship with the States

The States Policy Council is responsible for international financial matters and for establishing the policy framework for financial regulation, including the government's relationship with, and reporting lines for, the Commission. The Commission Law states that the Commission shall issue its audited financial statements and the two reports, referred to later in this appendix, annually to the Policy Council. The Policy Council is also responsible for the administration of the Control of Borrowing Ordinances. Individual officials of the Commission act for the Policy Council in matters requiring consent under the Ordinances.

The Commissioners

The activities of the Commission's executive are overseen by the members of the Commission (Commissioners). The Commission Law provides that the Commission shall consist of a minimum of five members and a maximum of seven members elected by the States from persons nominated by the Policy Council and appearing to it to be persons having knowledge, qualifications or experience appropriate to the development and supervision of finance business in the Bailiwick. The Chairman is appointed for a period of one year from amongst the Commissioners and is elected by the States following nomination by the Policy Council. The Vice-Chairman is appointed for a period of one year by the Commissioners. Each member is appointed as a Commissioner for a period not exceeding three years. A member whose term of office has come to an end is eligible for re-election. The Chairman and Vice-Chairman are also eligible for re-election to their positions. A member of the Commission must retire on reaching the age of 72 years.

The Commission currently has six Commissioners: Cees Schrauwers, Susie Farnon, Howard Flight, Alex Rodger, Richard Hobbs and Bob Moore. A brief résumé for each Commissioner is provided on pages 4 and 5 of this report. All of the Commissioners are non-executive – three reside in Guernsey, with the remainder living in the UK.

There were 13 meetings of the Commissioners in 2011. The attendance of the individual Commissioners at these meetings was as follows: Peter Harwood 13, David Mallett 11, Susie Farnon 13, Howard Flight 11, Alex Rodger 13, Cees Schrauwers 12. Prior to each meeting, Commissioners are provided with a full information pack to support the meeting's agenda.

An induction programme is in place for new Commissioners. The Commissioners periodically consider their roles, responsibilities and accountabilities.

The Commission Law also makes provision for the appointment of such officers and servants as are necessary for carrying out the Commission's functions and for the most senior officer to have the title of Director General.

Delegation of functions to executive staff

The Commissioners have delegated certain of their statutory functions to the executive staff of the Commission. These statutory functions are exercised by the executives both jointly and severally. All statutory functions of the Commission may be delegated to the executives except:

- the power of the Commissioners to delegate functions;
- the Commissioners' duty to make an annual report on the Commission's activities during the previous year to the Policy Council;
- any statutory functions which:
 - (i) require the Commissioners to consider representations concerning a decision which they propose to take; or
 - (ii) empower the Commission to cancel, revoke, suspend or withdraw a licence, consent, registration, permission or authorisation (except where the cancellation, revocation, suspension or withdrawal is done with the consent of the person who is, or who is acting on behalf of, the holder of the licence, consent, registration, permission or authorisation); or
 - (iii) empower the Commission to petition for the winding-up of a body corporate.

Annual report and financial statements

The Commission must, as soon as possible in each year, make a report to the Policy Council on its activities during the preceding year. The Chief Minister shall, as soon as possible, submit that report for consideration by the States.

The Commission Law also provides that the Commission shall:

- (a) keep proper accounts and proper records in relation to those accounts; and
- (b) prepare in respect of each year a statement of accounts giving a true and fair view of the state of affairs of the Commission;

and that the accounts of the Commission shall be:

- (a) audited by auditors appointed by the States; and
- (b) laid before the States.

The Commission includes a copy of its audited financial statements in the annual report to the Policy Council referred to above.

Report on internal control and corporate governance

Under the Commission Law, the Commission must also review in each year, by the appointment of appropriately qualified and independent professional persons or otherwise:

- (a) the adequacy and application of the Commission's systems of internal control;
- (b) the selection and application of the Commission's accounting policies and accounting procedures;

(c) the effective, efficient and economical management of the Commission's assets and resources; and

(d) the Commission's compliance with such generally accepted principles of good corporate governance as it is reasonable to regard as being applicable to the Commission.

The Commissioners are required to satisfy themselves in connection with the conclusions of each review and provide the Policy Council with a separate annual report on the matters covered by it.

The Commissioners are responsible for overseeing the Commission's corporate governance regime and for monitoring the effectiveness of management's systems of internal control. These systems are subject to regular review by management and address the risks to which the Commission is exposed. The Commission has an ongoing process for identifying, evaluating and managing operational risks (including regulatory and financial risks). In this connection, the Commission takes account of the guidance contained in the UK Code on Corporate Governance.

In accordance with the Commission Law, the Commissioners have reviewed the Commission's approach to risk management policies and processes. The annual report required by the law on internal control and corporate governance has been provided by the Commission to the Policy Council.

Audit and Risk Committee

The Commission's Audit and Risk Committee, which comprises Alex Rodger and Richard Hobbs (who was appointed in January 2012) and is chaired by Susie Farnon, covers oversight of the management of risk – it reviews corporate governance and the systems of internal control and makes reports routinely to meetings of the Commissioners as a whole. Meetings are usually attended by the Director General, the Head of Finance and Operations and the Commission Secretary (who is the committee's secretary). The committee met twice in 2011. The attendance of the individual members at these meetings was as follows: David Mallett (who retired in November 2011), Susie Farnon, Alex Rodger.

Review systems

Rather than appoint its own internal auditor to monitor the Commission's non-regulatory internal audit standards, the Commission has retained specialist external consultants to ensure that the Commission is up to date with current expectations. The corporate governance standards of the Commission have been reviewed by the Audit and Risk Committee and by the Commission's officers. The Commission is satisfied that it meets expectations in connection with internal audit and corporate governance. The International Monetary Fund ("IMF") undertook an evaluation of the Bailiwick with international regulatory and supervisory standard in 2010 under its Financial Stability Assessment Program. The Commission and the other authorities in Guernsey were found by the IMF to have a high level of compliance with these standards.



United States Department of State
*Bureau for International Narcotics and Law
Enforcement Affairs*

International Narcotics Control Strategy Report

Volume II Money Laundering and Financial Crimes

March 2013

INCSR 2013 Volume II Money Laundering and Financial Crimes

requiring financial institutions to identify the customer's name, address, and date of birth, and to verify the purpose of transaction, business activities, and beneficial owners. However, while the government is in the process of finalizing the subordinate decrees, these requirements do not come into effect until April 28, 2013.

The Government of Japan (GOJ) has not implemented a risk-based approach to AML/CFT, and there is currently no mandate for enhanced due diligence for higher-risk customers, business relationships, and transactions. While April 2011 amendments to the Criminal Proceeds Act call for financial institutions to verify a customer's assets and income in certain higher risk situations, the Act delineates those situations as being instances where the use of false identity is suspected, rather than those presented by such factors as business type, customer location, or type of transaction. The current regulations also do not authorize simplified due diligence, though there are exemptions to the identification obligation for customers or transactions believed to pose no or little risk for money laundering or terrorist financing. Japan should implement a risk-based approach to its AML/CFT regime.

The GOJ's number of investigations, prosecutions, and convictions for money laundering in relation to the number of drug and other predicate offenses is low, despite the GOJ's many legal tools and programs to combat these crimes. The National Police Agency (NPA) provides limited cooperation to other GOJ agencies, and most foreign governments, on nearly all criminal, terrorism, or counter-intelligence related matters. The GOJ should develop a robust program to investigate and prosecute money laundering offenses, and require enhanced cooperation by the NPA with its counterparts in the GOJ and foreign jurisdictions.

Jersey

The Island of Jersey, the largest of the Channel Islands, is an international financial center offering a sophisticated array of offshore services. Jersey is a British crown dependency but has its own parliament, government, and laws. The United Kingdom (UK) remains constitutionally responsible for its defense and international representation but has entrusted Jersey to regulate its own financial service sector and to negotiate and sign tax information exchange agreements directly with other jurisdictions.

The financial services industry is a key sector, with banking, investment services, and trust and company services accounting for approximately half of Jersey's total economic activity. As a substantial proportion of customer relationships are with nonresidents, adherence to know-your-customer rules is an area of focus for efforts to limit illicit money from foreign criminal activity. Jersey also requires beneficial ownership information to be obtained and held by its company registrar. Island authorities undertake efforts to protect the financial services industry against the laundering of the proceeds of foreign political corruption.

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For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here:
<http://www.state.gov/j/ct/rls/crt/>

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

KYC covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, traveler's checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, fund and portfolio managers; insurance companies and brokers; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high value goods; notaries, accountants, lawyers and legal professionals

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,847 in 2011

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, traveler's checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, fund and portfolio managers; insurance companies and brokers; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high value goods; notaries, accountants, lawyers and legal professionals

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2011

Convictions: None in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO *Other mechanism:* YES

With other governments/jurisdictions: NO

In lieu of a mutual evaluation, a report was prepared by the International Monetary Fund's Financial Sector Assessment Program. The report can be found here:
<http://www.imf.org/external/pubs/ft/scr/2009/cr09280.pdf>

INCSR 2013 Volume II Money Laundering and Financial Crimes

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Terrorist Asset Freezing (Jersey) Law 2011 came into force in April 2011 and replaced previous provisions on the freezing of terrorist assets. Under this law, a person designated by the UN or the UK for terrorist purposes is automatically designated in Jersey, and any funds or economic resources of the designated persons are subject to asset freezes. The Jersey Financial Services Commission website contains a link to the United Kingdom Consolidated List of asset freeze targets, which covers all designations by the UN, the European Union and the UK. Registered persons in Jersey are also encouraged to sign up to an email alert system coordinated by Her Majesty's Treasury in the UK, which alerts people to changes in the asset freeze designations.

Jersey does not enter into bilateral mutual legal assistance treaties. Instead it is able to provide mutual legal assistance to any jurisdiction, including the US, in accordance with the Criminal Justice (International Co-operation) (Jersey) Law 2001 and the Civil Asset Recovery (International Co-operation) (Jersey) Law 2007.

Jersey is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so, as is the case with tax information exchange agreements. Rather, the UK is responsible for Jersey's international affairs and, at Jersey's request, may arrange for the ratification of any Convention to be extended to Jersey. The UK's ratification of the 1988 UN Drug Convention was extended to include Jersey in July 1998; its ratification of the UN Convention against Corruption was extended to include Jersey in November 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to Jersey in September 2008. The UK has not extended the UN Convention against Transnational Organized Crime to Jersey.

Jersey authorities have a continuing concern regarding the increasing incidence of domestic drug-related crimes. The customs and law enforcement authorities devote considerable resources to countering these crimes.

Jersey requires an obliged entity to obtain all necessary customer due diligence (CDD) information from an introducer immediately at the beginning of a relationship. However, such information may not be required for an intermediary that is considered to present a lower risk. Jersey authorities should explicitly require that all obliged entities obtain all necessary CDD information from the intermediary or introducer at the beginning of a relationship and should consider requiring relevant persons to perform spot-testing of an intermediary or introducer's performance of CDD obligations.

Some concerns have been raised about relatively recent changes to the law on foundations which appear to increase risks for secrecy and tax evasion. Authorities should ensure due diligence and public reporting requirements are strengthened for foundations.



**Ministry of
JUSTICE**

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23 November 2009

Dear Chief Minister,

On behalf of the Lord Chancellor, I hereby entrust the Government of Jersey to negotiate and conclude Tax Information Exchange Agreements, other Agreements relating to taxation that provide for exchange of information on tax matters to the OECD standard (as set out in Article 26 of the Model Tax Convention on Income and Capital) and agreements relating to taxation that are ancillary to (or concluded after the signature of) a Tax Information Exchange Agreement entered into with the same contracting party, with the following:

- Member States of the OECD, EU and G20
- Jurisdictions that have been assessed by the OECD as having substantially implemented the internationally agreed tax standard

This entrustment replaces the entrustment relating to Tax information Exchange Agreements dated 1 December 2003, but does not affect Agreements the final text of which has been agreed by the Ministry of Justice under the terms of that entrustment which still await signature.

This entrustment is given on the understanding that the United Kingdom remains responsible for the international relations of Jersey; and on the conditions that the Jersey Government supplies evidence to the Ministry of Justice that the Government with whom the Jersey Government is negotiating is content to conclude the Agreement directly with the Jersey Government, and that the proposed final text of the Agreement is submitted to the Ministry of Justice in London for approval in good time before signature.

*Yours sincerely,
Willy Bach.*

WILLY BACH